



# THE SKYLINE REPORT

*for Benton and Washington Counties*

**Commercial Real Estate  
Market Summary  
October 2004**



SAM M.  
**WALTON**  
COLLEGE of BUSINESS

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## Commercial Real Estate Market Summary

This report is the second edition of the Skyline Report for Benton and Washington Counties—Commercial Real Estate Market Analysis. Researchers at the Center for Business and Economic Research (CBER) 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 commercial real estate market. The information contained in the Skyline report is critical for lenders, developers, contractors, and potential lessees. Because of the fast pace of growth in Northwest Arkansas, the commercial real estate market is fragmented with many local and national commercial real estate professionals competing to serve the needs of the burgeoning business community. Having current information and analysis provides a competitive advantage over those who make decisions without the benefit of hard data.

## Highlights from the Third Quarter of 2004

- Negative net absorption of over 25,000 square feet of office space occurred in the Northwest Arkansas market in the third quarter of 2004.
- At the end of the third quarter of 2004, there were over 718,000 square feet of office space available for lease in the four major cities along I-540.
- Despite relatively high vacancy rates and negative absorption rates, additional office buildings are being permitted and pre-leased, particularly in the Bentonville and Rogers markets.
- The Northwest Arkansas retail space market fared better than the office market in the third quarter as there was positive absorption of over 68,000 square feet.
- Available retail space totals just over 331,000 square feet in Bentonville, Fayetteville, Rogers, and Springdale.
- Continued population growth is driving demand for retail and entertainment facilities.
- No new leasing of any warehouse space was reported in the third quarter.
- The Northwest Arkansas regional economy continued to grow at a pace quicker than the national average, but macroeconomic uncertainties may begin to weigh on the local market.

## Report Structure

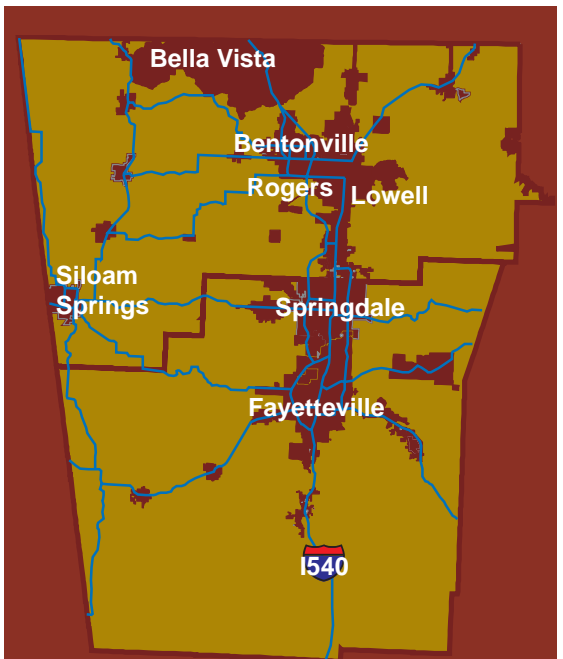
The Skyline Report presents an analysis of data from three primary sources. Information on the entire population of commercial property is gathered from the offices of the Benton and Washington County Assessors. Building permit data is collected from the appropriate division in Northwest Arkansas city governments. Finally, availability, lease rates, and other characteristics of competitive commercial properties are obtained from a panel of the largest commercial property owners and managers in Northwest Arkansas. Each type of information that is collected gives a unique, but critical perspective on the local commercial property market. Without understanding what the universe of commercial properties looks like at the beginning of a period, the scale of available space for lease is meaningless. Likewise, the data that come from building permits paint a picture of what market additions are imminent. Only after setting the stage with these two perspectives do vacancy rates and market absorption numbers have real value.

In order to provide yet another level of perspective on the Northwest Arkansas commercial property market, this edition of the Skyline Report introduces an overview of national and regional macroeconomic conditions. Ultimately, the real estate market is subject to the same fundamental forces that shape the rest of the economy, so having a broader view of current issues provides insights into potential challenges and opportunities for commercial property development.

To this end, the Skyline Report begins with an economic overview. First national output and employment issues are discussed and then there is a discussion of short-term and long-term interest rate prospects. Then, recent regional economic statistics are presented. After the economic overview, the results of some focus group discussions with commercial property developers and managers are summarized in order to supplement the hard data with anecdotal evidence from market participants about regional trends.

After the summary of local perceptions, the third quarter numbers for total commercial property square feet and building permit data are presented. Within the total square feet table, breakdowns of property type by city are contained. Also, the number of square feet of competitive commercial property for which the 31 panelists provided information is broken down by city and the percentage of coverage of the overall market is calculated.

The next four sections present analyses of Northwest Arkansas submarkets by type of space. The office submarket is examined first, followed by the office/retail, retail, warehouse, office/warehouse, and retail/warehouse submarkets. Following these sections are commercial property summary statistics by city. There are sections for Bella Vista, Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale.



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.

A table containing announced new commercial real estate projects is presented after the city statistical analyses. This table is meant to provide an indication of the future direction of the Northwest Arkansas commercial property market. As many of these projects are still in the conceptual phase, hard data are incomplete.

Finally, a section on how to interpret the numbers contained in the report and a description of the commercial property classification system are offered.

By aggregating and analyzing data from a variety of sources, the Skyline Report is unique in its perspective on the Northwest Arkansas commercial property market. The information should be useful to anyone with an interest in the current workings and projected course of commercial real estate in Benton and Washington Counties.

## **Economic Overview**

### ***The Macro Economy at a Glance***

The United States economy experienced a period of unremarkable growth in the third quarter of 2004. The growth rate of national output was near trend with third quarter GDP growth at a revised 3.3 percent, annualized. The national unemployment rate remained just below the average of the last three decades at 5.4 percent. These two statistics provide evidence of a growing, if not robust economy. Unfortunately, recent data on consumer sentiment seems to reflect the public's unease with the pace of the present economic expansion. The historically unusually strong growth experienced at the end of the last decade seems to be the benchmark by which the current economy is graded. The public is likely to be very sensitive to perceived changes in national economic data.

Seemingly contradictory economic data are muddying the economic waters. The perceived conflict between the unemployment rate and employment statistics is getting a great deal of attention from economists and politicians. The measurement of the unemployment rate has been imprecise due to the inability of the Census to adequately quantify population change. Current techniques tend to underestimate the labor force and therefore unemployment. The firm survey of employment is also suspect as firms continue to move employees from full-time to sub-contractor status. This creates the impression that employment has been reduced when it is simply the nature of the employment relationship that has changed. Further, an underlying structural change in the U.S. economy is significantly affecting many workers. The erosion in the manufacturing sector of the U.S. economy implies the destruction of large numbers of relatively high paying jobs. The jobs, which are being created to replace manufacturing jobs, are often inferior in terms of wage and non-wage compensation. The net effect is an employed but anxious workforce that has worries about maintaining its high level of consumption.

### ***Short-term Interest Rate Risk***

The Federal Reserve is intent on raising short-term rates incrementally for the foreseeable future. The Fed Funds target rate now stands at 1.75 percent, up 75 basis points from its historic low late last year. The primary rationale of monetary policy makers is to remove some monetary stimulus and move the Fed position to a more neutral stance. By increasing short-term rates, monetary policy is somewhat at odds with fiscal policy, which has been, is, and will likely continue to be in the near term, highly stimulatory.

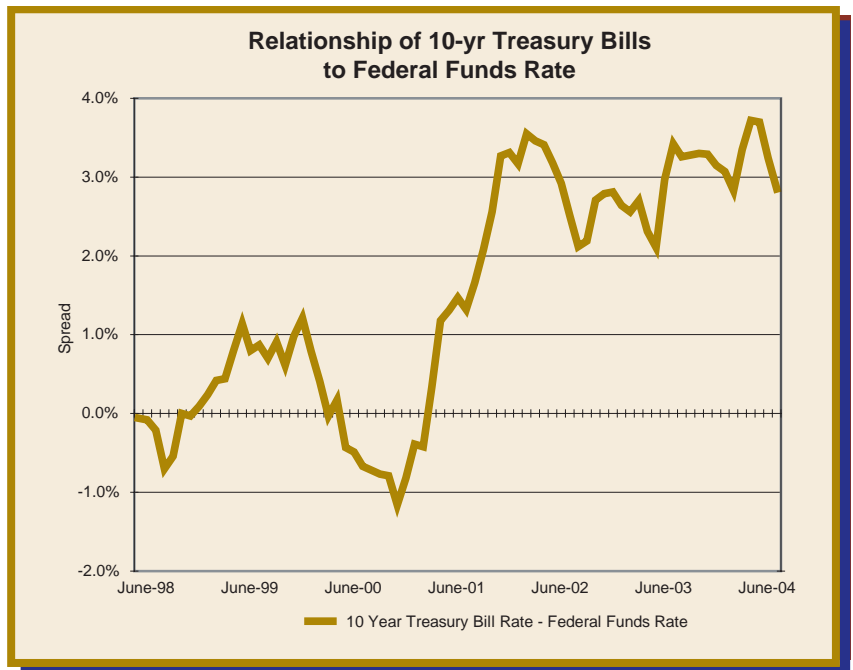
### ***Long-term Interest Rate Risk***

On the long-term side, the continuation of historically low rates has belied oil price shocks, increased federal borrowing, weakness in the stock markets, and a chaotic international environment. Much of the reasoning for the lack of upward movement in long-term rates has to do with the lack of upward pressure on the price level. Even with the volatile energy and food



components included, the CPI-U (the consumer price index for all urban consumers) increased just 0.1 percent in August following a 0.1 percent decline in July. The year-on-year data suggests core inflation increased just 2.7 percent from August of 2003 to August of 2004. Excluding energy and food, the CPI-U increased at a 2.2 percent seasonally adjusted annual rate.

Referring to the graph, the spread between long-term and short-term interest rates has increased noticeably from the late 1990s. Since early 2003, the spread has hovered around 300 basis points. Later this year and early next year, some upward movement in long-term rates is likely as short-term rates rise and the economy exhibits consistent performance, but there are not significant factors which would imply major upward movement in long-term rates through the third or fourth quarter of 2005. Consensus estimates predict real output growth of better than 4 percent for 2005. The employment/unemployment outlook shows little if any movement in the unemployment rate with modest job creation and wage growth. The lack of movement in wages going forward implies little inflationary pressure. The spread between long and short term rates will tighten as the rise in short-term rates fails to be fully reflected in the long-term rates.



### Regional Economic Overview

Economic indicators for the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA) remain stronger than national averages. CBER projections show that the population of the region will double from about 350,000 in 2000 to over 700,000 in 2025. The regional unemployment rate continues to hover beneath 3 percent, roughly half of the national average. The Northwest Arkansas growth rate in employment from July 2003 to July 2004 was 3.5 percent, while the national average was 1.5 percent. Manufacturing earnings in Northwest Arkansas grew 3.5 percent from July 2003 to July 2004. This wage growth was about 3.7 times faster than the manufacturing earnings growth in the state as a whole. Taxable sales in the MSA increased nearly 11.9 percent from July 2003 to July 2004. Meanwhile inflation remains muted on a national level.

Despite the relatively strong position of the Northwest Arkansas economy, national and international factors are potential threats to sustained growth. In particular, rising crude oil prices have the potential to undermine consumer spending as gasoline and heating oil consume larger percentages of family budgets. Weakened consumer spending directly translates into weakened business profitability, which will adversely affect local commercial real estate markets as expansions are delayed or scuttled. Three large employers headquartered in Northwest Arkansas, Wal-Mart, Tyson Foods, and JB Hunt, are all susceptible to the effects of increased fuel prices and the success of the region is largely influenced by the success of these companies.

### Local Perceptions of the Northwest Arkansas Commercial Property Market

While hard economic statistics form the basis of any credible forecast, there are often short-run deviations that contradict market fundamentals. Understanding the consensus viewpoint on a market can provide insights that complement an analysis of numerical data. To that end, CBER staff conducted in-depth conversations with 11 commercial developers and/or property managers in order to gain a deeper understanding about the current commercial real estate market in Northwest Arkansas. While the participants may have differed in the things they emphasized and in the specific words they used, a broad consensus emerged that the current commercial real estate market is healthy, and that strong growth is likely to continue for the foreseeable future. A few panelists observed that there are currently some areas of oversupply, a situation which they see as tempo-

rary. Specific examples of oversupply included the entire Benton County commercial market and multi-story office buildings throughout the region. One or two respondents also had some concern that if all of the planned projects come to fruition, a glut of space would exist on the market.

A few interviewees also mentioned that there were still underserved areas in the market. Specifically, they referred to a perceived lag between Northwest Arkansas population growth and its needs for expanded shopping and entertainment facilities.

Participants were divided over the pace of the market in the past three months. Some respondents have noticed an up-tick in vacancies, while others have seen the market accelerating. Those who saw the quickened pace noted that some properties might be filling up more slowly than others, but they saw overall office and retail demand as continuing to be quite high.

Construction of some proposed developments has not yet begun, which may be due to any of a number of factors: regulatory clearances, financing approvals, difficulties in securing contractors, etc. Some of these projects, such as the proposed Pinnacle Hills Promenade, are significant enough that they cast an uncertain shadow over the current market, as potential lessees attempt to take into account whether it is a “go” or “no go.”

The respondents were in complete unanimity as to the dominant underlying factor driving the current market - the Wal-Mart vendor community. Some interviewees pondered what might happen if there is a reversal in the trend of vendors requiring more and more space, either from locating in Northwest Arkansas for the first time or increasing the amount of space they already have in Northwest Arkansas. Yet, others saw the Wal-Mart and vendor business plans as being so intertwined that the market is somewhat insulated from shocks.

In terms of impediments to a steadily growing market, all the respondents mentioned the region’s infrastructure needs as their most pressing concern. Traffic issues were uppermost in their minds, including the volume of traffic on I-540, the absence of any east-west thoroughfares and the need to decrease the time it takes to cover relatively short distances. Traffic is now clogging some rural roads which were not intended to handle current volumes. Some panelists, who moved here from larger metropolitan areas, agreed that we do have traffic problems, but they attempted put it into a little different perspective. As one said, “there is congestion, and then there is congestion.”

Water and sewer issues, especially in Benton County, were also cited as growth inhibitors, as were impact fees and the lengthy approval process for proposed developments. One developer panelist said that the time involved could “kill projects.”

In summary, the interview participants:

- Were very upbeat about strong overall office and retail demand continuing.
- Felt that an oversupply, that will be short-lived, currently exists in some sub-markets.
- Observed that the needs of the vendor community are driving the current market.
- Agreed that population growth means that the retail and entertainment parts of the market are underserved.
- Expressed that infrastructure needs are lagging, and have the potential to become a drag on growth.

## Local Commercial Property Inventory and Building Permit Data

The following table presents the universe of commercial property inventory in Northwest Arkansas that meets minimum square footage requirements (a complete list of these criteria is included at the end of this report) as of September 2004. Comparison data are provided from October 2003, so that growth in total property by category can be examined. Also included are columns detailing the total square feet and percent coverage of the total inventory for which the Skyline Report commercial property owner and manager panel provided information. For the third quarter, the Skyline Report panel covers more than 18

percent of the total commercial property population in Northwest Arkansas. Some cities have better coverage than others. For example, 25 percent of the commercial space in Bentonville is in the Skyline Report sample, while only 2 percent of the Siloam Springs commercial space is included.

In addition, building permit data are presented for six major cities in Northwest Arkansas. Building permit data are seasonal and will show large fluctuations in square footage and value from quarter to quarter. Moreover, any particularly large project can skew the numbers immensely. For example, the \$10,000,000 JB Hunt campus office building that was permitted in the third quarter dwarfs any other development in Lowell and the calculated growth rate reflects that disparity. Building permit data are also city-specific. Only Bentonville, Fayetteville, and Siloam Springs present square footage data, while only Bentonville and Fayetteville break out the different types of commercial property. A standardization of building permit applications in the region would provide much better data for comparison purposes.

## Total Square Feet by Type and City

	Industrial <sup>1</sup>	Office <sup>1</sup>	Retail <sup>1</sup>	Warehouse <sup>1</sup>	Total <sup>1</sup>	Panel Total Square Feet <sup>2</sup>	Panel Coverage <sup>2</sup>
Bella Vista	—	106,188	85,576	61,594	253,358	151,627	60%
Bentonville	528,728	3,881,303	745,848	2,552,780	7,708,659	1,926,316	25%
Fayetteville	3,955,929	3,040,880	4,088,501	1,977,765	13,063,075	3,096,924	24%
Lowell	294,213	553,516	117,871	145,746	1,111,346	191,694	17%
Rogers	4,207,341	1,877,698	2,392,150	1,734,394	10,211,583	1,615,715	16%
Siloam Springs	1,787,777	273,389	717,708	1,344,337	4,123,211	95,120	2%
Springdale	4,104,795	1,881,577	1,786,784	3,459,013	11,232,169	1,587,078	14%
Northwest Arkansas Total							
September 2004	14,878,783	11,614,551	9,934,438	11,275,629	47,703,401	8,664,474	18%
October 2003	14,227,001	8,814,835	9,328,056	9,778,828	42,148,720	10,150,258	24%
Growth Rate	5%	32%	7%	15%	13%	-15%	

<sup>1</sup>Source: Benton and Washington County offices of the Assessor. The total square feet represent the population of commercial properties that meet the baseline criteria set out on page 23 of this report.

<sup>2</sup>Source: Panel of 31 large Northwest Arkansas commercial property owners and managers.

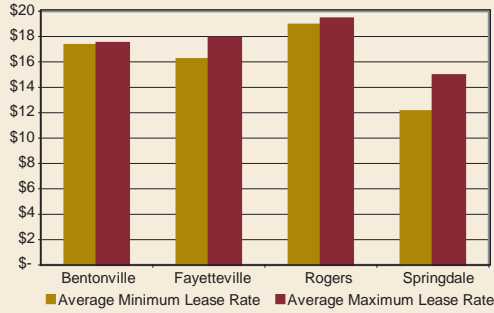
## Building Permit Data June - August 2004 by City and Type

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
<b>Total Commercial</b>							
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	—	—
Value Growth Rate	12%	-47%	4,827%	247%	16%	169%	171%
Square Feet Growth Rate	-5%	-61%	—	—	-70%	—	—
<b>Office</b>							
Value	\$15,617,088	—	—	—	—	—	—
Square Feet	196,958	—	—	—	—	—	—
<b>Retail</b>							
Value	\$829,400	\$4,145,124	—	—	—	—	—
Square Feet	14,300	35,500	—	—	—	—	—

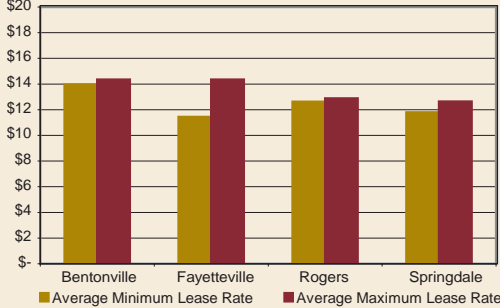




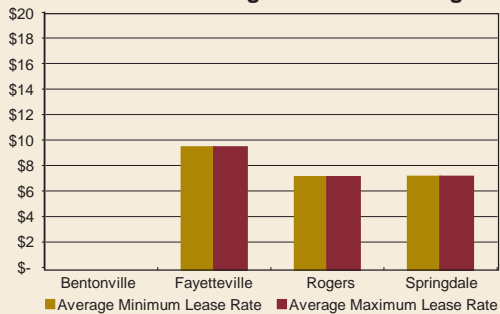
**Class A Office Average Lease Rate Ranges**



**Class B Office Average Lease Rate Ranges**



**Class C Office Average Lease Rate Ranges**



## Office Lease Rates

**Average Range by City**

	Class A	Class B	Class C
Bentonville	\$17.33 - \$17.49	\$13.96 - \$14.35	—
Fayetteville	\$16.21 - \$17.90	\$11.44 - \$14.35	\$9.63 - \$9.63
Rogers	\$18.92 - \$19.42	\$12.63 - \$12.88	\$7.28 - \$7.28
Springdale	\$12.10 - \$14.95	\$11.80 - \$12.63	\$7.32 - \$7.32

## Office

In the third quarter of 2004, the office properties included in the CBER panel had a vacancy rate of 29.1 percent. Of the 2.5 million square feet of Northwest Arkansas properties examined, 735,318 square feet are currently available. From the second quarter of 2004 to the third quarter of 2004, 22,600 square feet of office space were absorbed, while an additional 50,050 square feet came online in the market. At this rate of absorption, assuming no further space is added to the market, it will take 97.3 months for the currently available inventory to become completely occupied.

However, building permits issued from June through August 2004 indicate that there is a substantial amount of new office space being constructed. In Bentonville, almost 200,000 square feet of new office space was permitted in the third quarter. A \$10 million office building was permitted in Lowell, and over \$10 million of office space was permitted in Rogers. Building permits in Fayetteville and Springdale do not indicate any substantial new office space in those submarkets.

Of the 735,318 square feet of available office space in Northwest Arkansas, roughly half is located in Bentonville and comprises Class A and Class B space. Using the rate of absorption from the second quarter of 2004 to the third quarter of 2004, Bentonville has almost 158 months, or over 13 years, of



office space inventory available. However, Bentonville Plaza accounts for about 63 percent of the unoccupied space. When that development is removed from the calculation, Bentonville has 15.3 months of office inventory.

Within the office market in Rogers, zero net absorption took place within the Class A and Class B submarkets, while just less than 10,000 square feet of Class C space became occupied during the third quarter. An additional 18,000 square feet of Class A space became available during the same period. The total amount of available office space in Rogers is 134,592 square feet, which is about the same amount that is for lease in Bentonville other than in Bentonville Plaza.

Fayetteville had 164,499 square feet of available office space in the third quarter of 2004. The bulk of this space is Class A and about half of the available space is medical office space. In the third quarter, 32,299 square feet of office space were absorbed. At this rate, there are 15.3 months of office space in Fayetteville.

There were only 53,603 available square feet of office space in Springdale in the third quarter, but this represents a vacancy rate of 26.5 percent for the city. Springdale experience negative absorption of 21,571 square feet of office space from the second quarter of 2004 to the third quarter of 2004. The negative absorption rate was primarily due to the vacating of almost 30,000 square feet of Class A office space.

Office lease rates continue to be highest for Class A office space in Rogers and Bentonville, averaging from the low \$17 range to mid \$19 per square foot. Some Class A space in Fayetteville is priced at the low end of this range, but Class A space in Springdale is significantly less expensive per square foot. Class B space is most expensive on average in Bentonville and least expensive in Springdale. Fayetteville has the most expensive Class C space, while none was reported for Bentonville.

## Office Space Characteristics by Class and City

Class A Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	443,398	254,666	57%	4,842	0	4,842	157.79
Fayetteville	210,004	119,618	57%	-10,967	10,000	-20,967	—
Rogers	508,239	68,628	14%	0	18,000	-18,000	—
Springdale	62,806	32,000	51%	-29,384	0	-29,384	—
Class B Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	515,688	110,691	21%	-7,082	15,500	-22,582	—
Fayetteville	401,182	38,187	10%	43,266	0	43,266	2.65
Rogers	31,867	26,087	82%	0	0	0	—
Springdale	116,940	18,603	16%	11,563	3,750	7,813	4.83
Class C Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	—	—	—	—	—	—	—
Fayetteville	30,900	6,694	22%	0	0	0	—
Rogers	49,165	39,877	81%	9,888	0	9,888	12.10
Springdale	22,534	3,000	13%	0	0	0	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents



## Office/Retail Lease Rates

### Average Range by City

	Class A	Class B	Class C
Bentonville	—	\$11.31 - \$12.88	\$7.00 - \$9.00
Fayetteville	\$18.50 - \$18.50	—	\$5.57 - \$11.70
Rogers	\$13.15 - \$13.15	—	\$8.00 - \$13.25
Springdale	—	\$12.33 - \$14.00	\$7.50 - \$11.50

## Office/Retail

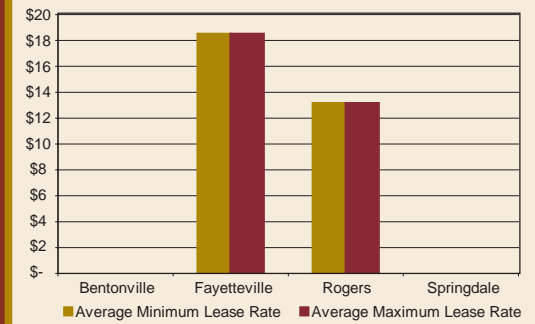
In the third quarter of 2004, the office/retail properties included in the CBER panel had a vacancy rate of 18.2 percent. Of the 866,925 square feet of Northwest Arkansas properties examined, 157,606 square feet are currently available. From the second quarter of 2004 to the third quarter of 2004, 14,500 square feet of office/retail space were absorbed, while an additional 16,000 square feet came online in the market. At this rate of absorption, assuming no further space is added to the market, it will take 32.6 months for the currently available inventory to become completely occupied.

Of the 14,500 square feet of office/retail space that were absorbed in the third quarter of 2004, 5,000 square feet were located in Bentonville. However, Bentonville has 73,717 feet of available office/retail space, implying that at current absorption rates, there is a 43.6 month supply. No new office/retail space came online in Bentonville in the third quarter.

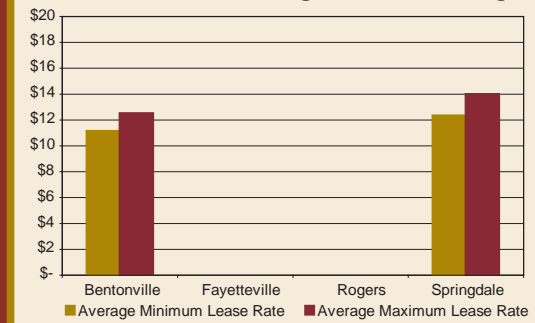
Rogers has a 17.3 percent vacancy rate in the office/retail market with 26,380 square feet of space. During the third quarter of 2004, no new space became available for lease and no space was absorbed. Fayetteville has 21,300 square feet of available office/retail space. Only 1,000 square feet of space was absorbed during the third quarter, implying that there are 63.9 months of office/retail inventory in Fayetteville.

In the third quarter of 2004, there were 33,809 square feet of available office/retail space in Springdale which translated into a 17.9 percent vacancy rate. In the quarter, 8,500 square feet were absorbed while an additional 16,000

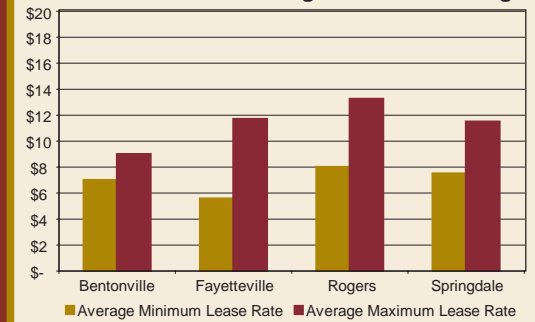
Class A Office/Retail Average Lease Rate Ranges



Class B Office/Retail Average Lease Rate Ranges



Class C Office/Retail Average Lease Rate Ranges



square feet came online for lease. This implies a net absorption of negative 7,500 square feet and that Springdale has an office/retail space inventory of 11.9 months.

Compared to the office market and the retail market, the information gathered about the office/retail market is fairly sparse. Information about a total of just 866,925 total square feet are available, and lease rates within a class often represent only a single property. The highest lease rates for office/retail space are observed in Fayetteville Class A space at \$18.50 per square foot. Springdale has relatively high Class B office/retail lease rates at between \$12.33 and \$14.00. Rogers has the highest Class C office/retail lease rates with a range of \$8.00 to \$13.25.

## Office/Retail Space Characteristics by Class and City

### Class A Office/Retail

	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	—	—	—	—	—	—	—
Fayetteville	15,000	13,300	89%	1,000	0	1,000	39.90
Rogers	58,000	14,400	25%	0	0	0	—
Springdale	—	—	—	—	—	—	—

### Class B Office/Retail

	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	156,424	72,717	46%	5,000	0	5,000	43.63
Fayetteville	208,599	—	0%	0	0	0	—
Rogers	—	—	—	—	—	—	—
Springdale	53,000	27,000	51%	3,000	16,000	-13,000	27.00

### Class C Office/Retail

	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	57,522	1,000	2%	0	0	0	—
Fayetteville	10,000	8,000	80%	0	0	0	—
Rogers	94,185	11,980	13%	0	0	0	—
Springdale	135,663	6,809	5%	5,500	0	5,500	3.71

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents



## Retail Lease Rates

### Average Range by City

	Class A	Class B	Class C
Bentonville	\$21.00 - \$21.00	\$14.00 - \$14.67	\$11.00 - \$11.00
Fayetteville	—	\$12.28 - \$13.11	\$10.64 - \$11.56
Rogers	\$19.33 - \$19.80	\$13.55 - \$14.75	\$6.34 - \$6.34
Springdale	—	\$12.63 - \$17.28	\$8.79 - \$9.46

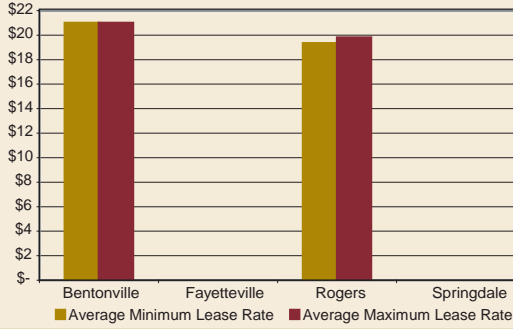
## Retail

The Northwest Arkansas retail space market does not appear to be as overbuilt as the office market. In the third quarter of 2004, the retail properties included in the CBER panel had a vacancy rate of 11.7 percent. Of the 2.8 million square feet of Northwest Arkansas properties examined, 331,825 square feet are currently available. From the second quarter of 2004 to the third quarter of 2004, 89,530 square feet of retail space were absorbed, while an additional 16,208 square feet came online in the market. At this rate of absorption, assuming no further space is added to the market, it will take 11.1 months for the currently available inventory to become completely occupied.

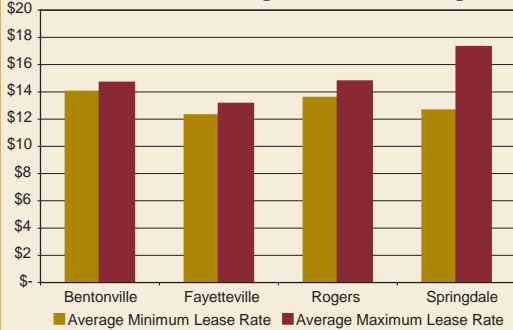
Bentonville had 59,590 square feet of available space in the third quarter of 2004, for a 38.7 percent vacancy rate. Over 43,000 of these square feet were rated Class B, average strip shopping centers. Zero absorption occurred in the third quarter and an additional 10,208 square feet of retail space became available for lease.

Fayetteville had more square feet of retail space available than Bentonville in the third quarter at 97,738 square feet, but because Fayetteville is working from a larger retail base, the vacancy rate was only 6.4 percent. No additional retail space was added to the Fayetteville market and there was a positive absorption of 10,666 square feet of space. The positive absorption occurred in the Class A and Class C markets, while the Class B market actually had negative absorption of just less than 1,000 square feet.

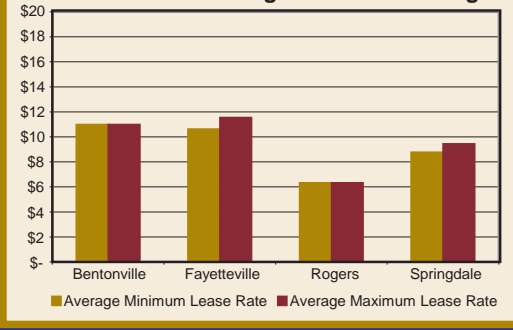
**Class A Retail Average Lease Rate Ranges**



**Class B Retail Average Lease Rate Ranges**



**Class C Retail Average Lease Rate Ranges**





The Rogers market has approximately the same amount of available retail space as the Fayetteville market at 92,405 square feet. This space represents a 23.8 percent vacancy rate of the total of 387,745 square feet of retail space. No new retail space became available for lease in the third quarter and no space was absorbed in the Rogers retail market.

The retail market in Springdale experienced a large amount of absorption in the third quarter of 2004. Net absorption of 67,964 square feet of retail space was reported. After this large event, only 81,392 square feet of retail space remain available for lease out of a total of 680,537 square feet. No new retail space was reported as coming online in the third quarter in Springdale.

Bentonville and Rogers continue to have the most expensive Class A retail space in the Northwest Arkansas market with rates above \$19 a square foot on average. Class B retail property lease rates are least expensive in Fayetteville where they range between the low \$12 to the low \$13 range. Bentonville has the most expensive and Rogers has the least expensive Class C retail space in the area.

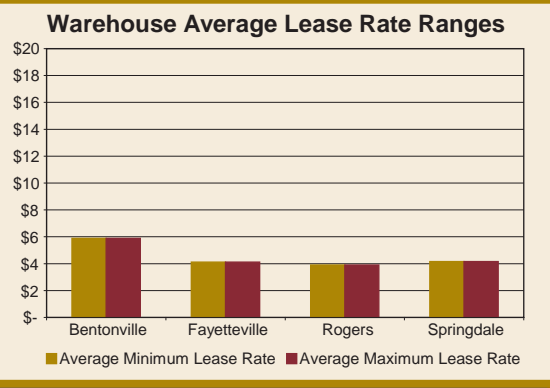


## Retail Space Characteristics by Class and City

Class A Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	20,168	10,000	50%	0	0	0	—
Fayetteville	929,176	17,021	2%	9,497	0	9,497	5.38
Rogers	60,372	—	0%	0	0	0	—
Springdale	—	—	—	—	—	—	—
Class B Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	111,327	43,590	39%	0	10,208	-10,208	—
Fayetteville	523,201	79,384	15%	-981	0	-981	—
Rogers	309,326	75,176	24%	0	0	0	—
Springdale	639,447	69,292	11%	70,964	0	70,964	2.93
Class C Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	22,616	6,000	27%	0	0	0	—
Fayetteville	84,602	1,333	2%	2,150	0	2,150	1.86
Rogers	18,047	17,229	95%	0	0	0	—
Springdale	41,090	12,100	29%	3,000	6,000	-3,000	12.10

<sup>1</sup>From all Q3 2004 respondents

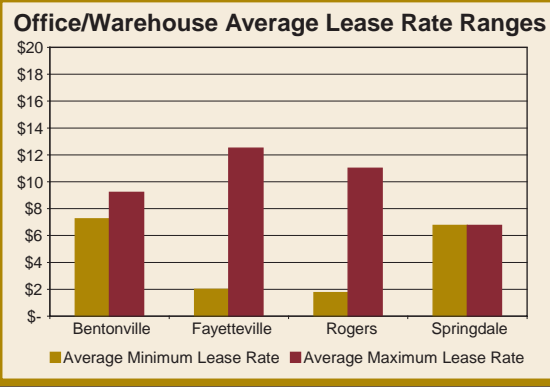
<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents



## Other Lease Rates

### Average Range by City

	Warehouse	Office/Warehouse	Retail/Warehouse
Bentonville	\$5.88 - \$5.88	\$7.25 - \$9.21	—
Fayetteville	\$4.12 - \$4.12	\$2.00 - \$12.50	\$5.08 - \$5.08
Rogers	\$3.90 - \$3.90	\$1.75 - \$11.00	\$4.80 - \$4.80
Springdale	\$4.16 - \$4.16	\$6.75 - \$6.75	\$4.00 - \$12.50



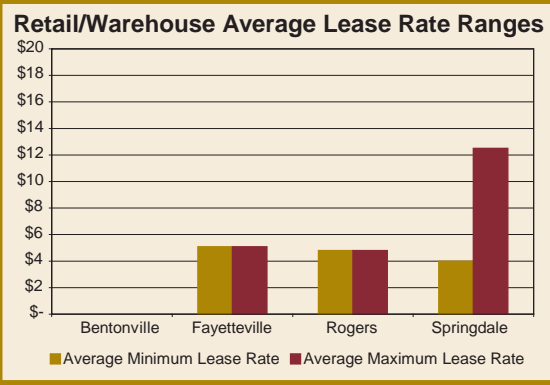
## Warehouse

In the third quarter of 2004, the warehouse properties included in the CBER panel had a vacancy rate of 50.7 percent. Of the 1.6 million square feet of Northwest Arkansas properties examined, 835,984 square feet are currently available. No square feet were absorbed and no additional square feet came online in the market. Months of inventory statistics are unavailable due to the zero absorption rate in this submarket during this period.

The Bentonville market accounts for over half of the available warehouse space in the Northwest Arkansas market with 444,668 square feet of space. Bentonville also has the most expensive warehouse space with average lease prices of about \$5.88 per square foot. This is more than \$1.50 more expensive than in the other cities in Northwest Arkansas. Fayetteville, Rogers, and Springdale have roughly equivalent prices per square foot for warehouse space, although panelists report a far lower vacancy rate in warehouse space in Fayetteville at 8 percent.

## Office/Warehouse

The Northwest Arkansas office/warehouse market is characterized by large vacancy rates and a plethora of available space. In the third quarter of 2004, the office/warehouse properties included in the CBER panel had an average vacancy rate of 96.9 percent. Of the 284,380 square feet of Northwest Arkansas properties examined, 275,500 square feet are currently available. From the second quarter of 2004 to the third quarter of 2004, 7,800 square



## Other Space Characteristics by Class and City

Warehouse							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	553,893	444,668	80%	0	0	0	—
Fayetteville	454,000	38,000	8%	0	0	0	—
Rogers	323,789	203,326	63%	0	0	0	—
Springdale	237,950	131,590	55%	0	0	0	—
Office/Warehouse							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	45,280	38,400	85%	0	0	0	—
Fayetteville	6,000	—	0%	0	0	0	—
Rogers	21,000	21,000	100%	0	0	0	—
Springdale	173,100	173,100	100%	-7,800	0	-7,800	—
Retail/Warehouse							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	—	—	—	—	—	—	—
Fayetteville	8,900	5,900	66%	0	0	0	—
Rogers	10,000	10,000	100%	0	0	0	—
Springdale	104,548	11,000	11%	5,000	0	5,000	6.60

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

feet of office/warehouse space were vacated. No additional square feet came onto the market. Months of inventory statistics are unavailable because of the negative absorption rates in this period.

Springdale has the bulk of the available office/warehouse space with 173,100 square feet available. This includes the 7,800 square feet of negative absorption that occurred in the third quarter of 2004.

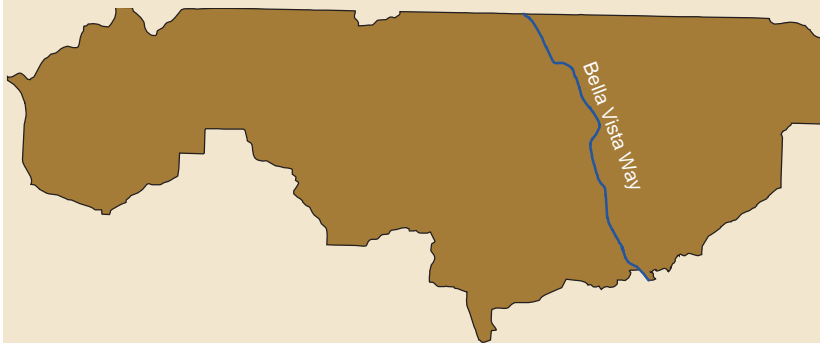
The remaining available office/warehouse space is split between Bentonville and Rogers as no available office/warehouse space was reported in Fayetteville by the Skyline Report panelists. The lease rates of office/warehouse space vary widely both within and among Northwest Arkansas communities. The prices range from a low of \$1.75 to a high of \$11.00 per square foot of space.

### Retail/Warehouse

In the third quarter of 2004, the retail/warehouse properties included in the CBER panel had a vacancy rate of 21.8 percent. Of the 123,448 square feet of Northwest Arkansas properties examined, 26,900 square feet are currently available. From the second quarter of 2004 to the third quarter of 2004, 5,000 square feet of retail/warehouse space were absorbed, while no additional square feet came online in the market. At this rate of absorption, assuming no further space is added to the market, it will take 16.1 months for the currently available inventory to become completely occupied.

The retail/warehouse space available in Northwest Arkansas is split among Fayetteville, Springdale, and Rogers. In the third quarter, the only positive absorption of retail/warehouse space happened in Springdale. In Fayetteville and Rogers, zero absorption occurred. Lease prices for retail/warehouse space cluster around \$5.00 per square foot in Fayetteville and Rogers and range from \$4.00 to \$12.50 per square foot in Springdale.

## Bella Vista Village



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Bella Vista had 253,358 square feet of commercial space that meet the CBER specified minimum size criteria. This represents zero growth from October 2003.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 151,627 square feet of commercial space in the third quarter of 2004. This represents 60 percent of the total commercial space in Bella Vista and is an increase of 2 percent in the reporting rate from the second quarter of 2004.
- Office vacancy rates declined from nearly 34 percent in the second quarter of 2004 to almost 20 percent in the third quarter of 2004 even as 2,800 new square feet of office space became available.
- Almost no retail space was available for lease in Bella Vista in the third quarter of 2004.

## Bella Vista Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	—	—	—	—	—	—	—
Office	\$11.02 - \$11.02	17,054	3,350	19.6%	550	2,800	-2,250	18.3
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Retail	\$7.49 - \$7.49	78,532	2,400	3.1%	—	0	—	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Warehouse	—	—	—	—	—	—	—	—
Retail	\$7.53 - \$7.53	56,041	700	1.2%	4,900	0	4,900	0.4
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Retail/Warehouse	—	—	—	—	—	—	—	—
Warehouse	—	—	—	—	—	—	—	—

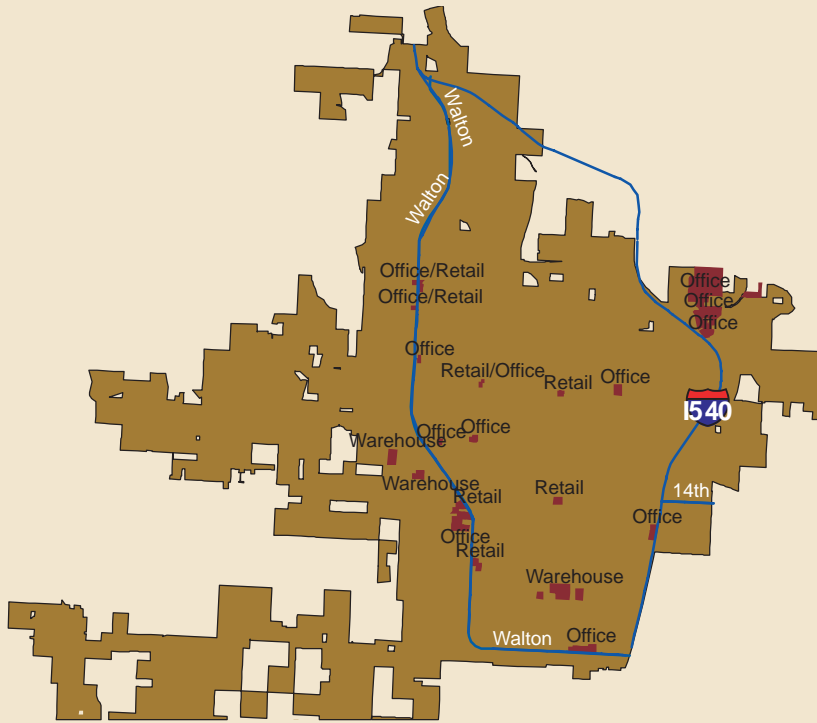
<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents



## Bentonville

### City of Bentonville



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Bentonville had 7,708,659 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 11 percent from October 2003.
- From June to August 2004, Bentonville issued building permits for 211,258 square feet of new commercial space, valued at a total of \$16,446,488. This represents a 5 percent decline in building permit square footage and a 12 percent increase in building permit value over the second quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 1,926,316 square feet of commercial space in the third quarter of 2004. This represents 25 percent of the total commercial space in Bentonville and is a decline of 19 percent in the reporting rate from the second quarter of 2004.
- From the second quarter of 2004 to the third quarter of 2004, Bentonville experienced almost zero or negative absorption rates in almost all of its submarkets. This was primarily caused by new space coming online, rather than existing space being vacated.
- Office vacancy rates experienced no discernable change from the second quarter of 2004 to the third quarter of 2004, but remained at near 40 percent.
- Retail vacancy rates declined from almost 70 percent of the second quarter 2004 sample to about 40 percent of the third quarter 2004 sample.
- No significant change in lease rates occurred in any Bentonville submarket between the second and third quarters of 2004.

## Bentonville Commercial Real Estate Market Summary Statistics

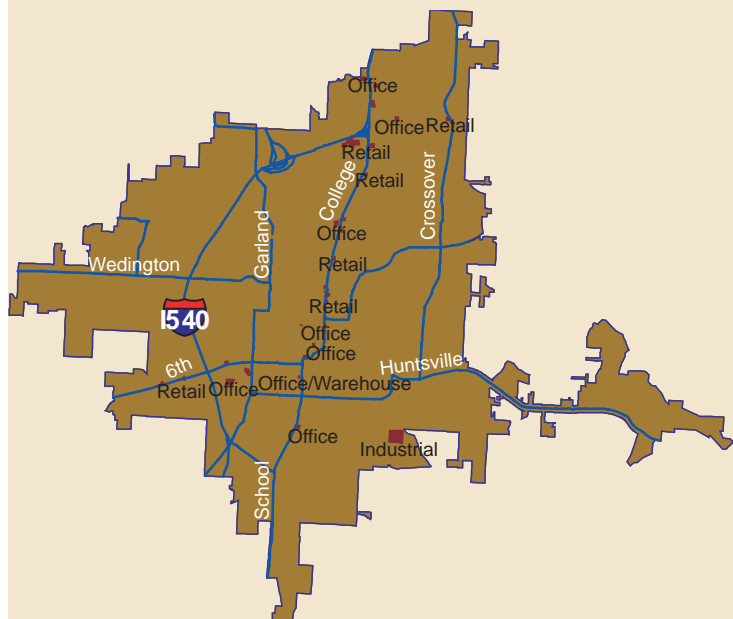
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	—	—	—	—	—	—	—
Office	\$14.77 - \$15.11	959,086	365,357	38.1%	-2,240	15,500	-17,740	—
Class A	\$17.33 - \$17.49	443,398	254,666	57.4%	4,842	0	4,842	157.8
Class B	\$13.96 - \$14.35	515,688	110,691	21.5%	-7,082	15,500	-22,582	—
Class C	—	—	—	—	—	—	—	—
Office/Retail	\$10.02 - \$11.72	213,946	73,717	34.5%	5,000	0	5,000	44.2
Class A	—	—	—	—	—	—	—	—
Class B	\$11.31 - \$12.88	156,424	72,717	46.5%	5,000	0	5,000	43.6
Class C	\$7.00 - \$9.00	57,522	1,000	1.7%	0	0	0	—
Office/Warehouse	\$7.25 - \$9.21	45,280	38,400	84.8%	0	0	0	—
Retail	\$14.50 - \$15.00	154,111	59,590	38.7%	0	10,208	-10,208	—
Class A	\$21.00 - \$21.00	20,168	10,000	49.6%	0	0	0	—
Class B	\$14.00 - \$14.67	111,327	43,590	39.2%	0	10,208	-10,208	—
Class C	\$11.00 - \$11.00	22,616	6,000	26.5%	0	0	0	—
Retail/Warehouse	—	—	—	—	—	—	—	—
Warehouse	\$5.88 - \$5.88	553,893	444,668	80.3%	0	0	0	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

## Fayetteville

### City of Fayetteville



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Fayetteville had 13,063,075 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 23 percent from October 2003.
- From June to August 2004, Fayetteville issued building permits for 35,500 square feet of new commercial space, valued at a total of \$16,446,488. This represents a decline of 61 percent in building permit square footage and a decline of 47 percent in building permit value from the second quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 3,096,924 square feet of commercial space in the third quarter of 2004. This represents 24 percent of the total commercial space in Fayetteville and is a decline of 31 percent in the reporting rate from the second quarter of 2004.
- From the second quarter of 2004 to the third quarter of 2004, Fayetteville experienced mixed results in the absorption rates in its submarkets. New construction and vacated space caused a negative absorption rate in Class A office space, while Class B office space experience 43,266 square feet of absorption from the second to the third quarter of 2004. Class A retail space had almost 9,500 square feet of net absorption, while Class B retail had a negative absorption rate of about 1,000 square feet. Office/Retail space experience zero absorption from the second to the third quarter of 2004.
- Office vacancy rates declined from about 30 percent of the second quarter 2004 sample to about 25 percent of the third quarter 2004 sample.
- Retail vacancy rates declined from about 8 percent of the second quarter 2004 sample to about 6 percent of the third quarter 2004 sample.
- Lease rates increased slightly across all Fayetteville submarkets from the second quarter of 2004 to the third quarter of 2004.

## Fayetteville Commercial Real Estate Market Summary Statistics

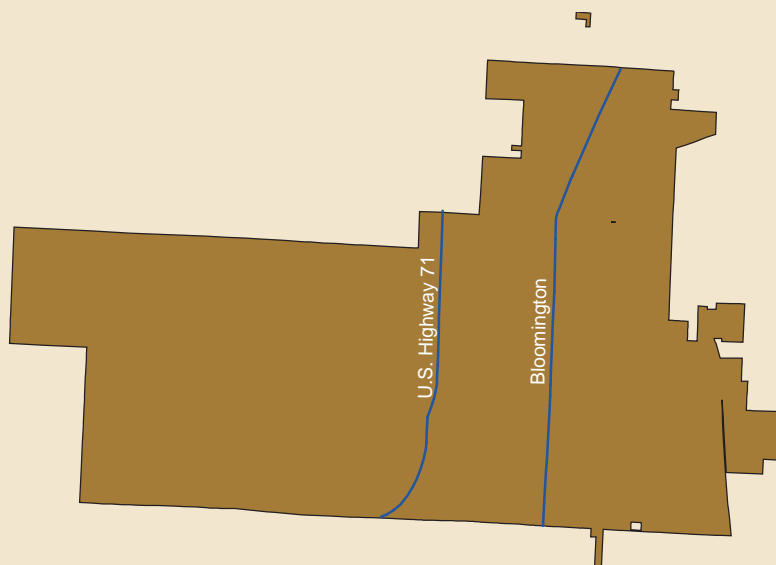
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	215,360	—	0.0%	0	0	0	—
Office	\$12.75 - \$14.65	642,086	164,499	25.6%	32,299	10,000	22,299	15.3
Class A	\$16.21 - \$17.90	210,004	119,618	57.0%	-10,967	10,000	-20,967	—
Class B	\$11.44 - \$14.35	401,182	38,187	9.5%	43,266	0	43,266	2.6
Class C	\$9.63 - \$9.63	30,900	6,694	21.7%	0	0	0	—
Office/Retail	\$14.19 - \$16.23	233,599	21,300	9.1%	1,000	0	1,000	63.9
Class A	\$18.50 - \$18.50	15,000	13,300	88.7%	0	0	0	—
Class B	—	208,599	—	0.0%	0	0	0	—
Class C	\$5.57 - \$11.70	10,000	8,000	80.0%	0	0	0	—
Office/Warehouse	\$2.00 - \$12.50	6,000	—	0.0%	0	0	0	—
Retail	\$11.62 - \$12.46	1,536,979	97,738	6.4%	10,666	0	10,666	27.5
Class A	—	929,176	17,021	1.8%	9,497	0	9,497	5.4
Class B	\$12.28 - \$13.11	523,201	79,384	15.2%	-981	0	-981	—
Class C	\$10.64 - \$11.56	84,602	1,333	1.6%	2,150	0	2,150	1.9
Retail/Warehouse	\$5.08 - \$5.08	8,900	5,900	66.3%	0	0	0	—
Warehouse	\$4.12 - \$4.12	454,000	38,000	8.4%	0	0	0	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

## Lowell

### City of Lowell



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Lowell had 1,111,346 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 10 percent from October 2003.
- From June to August 2004, Lowell issued commercial building permits valued at a total of \$10,035,248. This represents an increase of 4,827 percent in building permit value from the second quarter of 2004. The new office building on JB Hunt Corporate drive entirely accounts for this massive increase.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 191,694 square feet of commercial space in the third quarter of 2004. This represents 17 percent of the total commercial space in Lowell and is an increase of 113 percent in the reporting rate from the second quarter of 2004.
- No absorption rate calculations, vacancy rate comparisons or lease rate comparisons are possible as the samples from the second and third quarters involve different space and are not sufficiently large to provide significant coverage of the market.

## Lowell Commercial Real Estate Market Summary Statistics

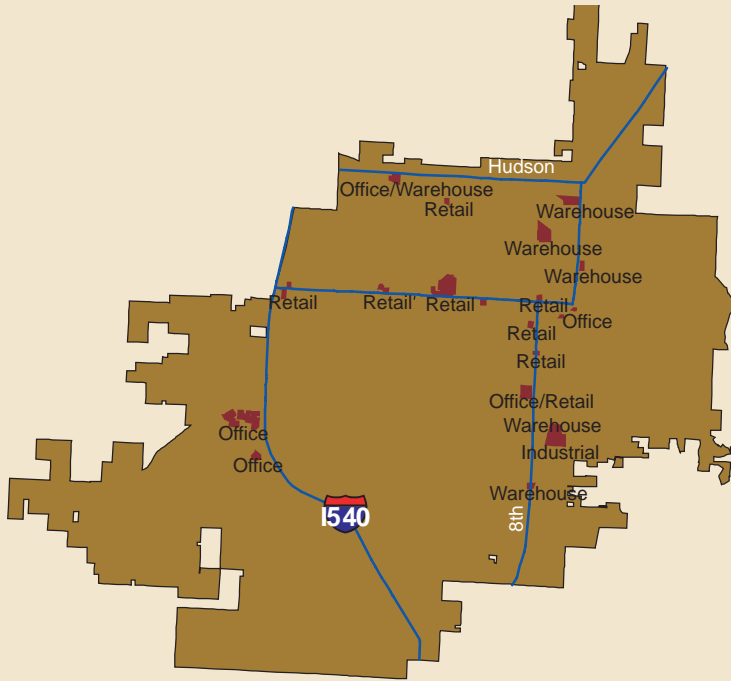
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	—	—	—	—	—	—	—
Office	\$17.68 - \$17.68	118,079	13,797	11.7%	0	0	0	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Retail	\$9.50 - \$10.00	35,612	3,147	8.8%	0	0	0	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Warehouse	—	30,000	—	—	—	—	—	—
Retail	—	19,200	—	0.0%	0	0	0	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Retail/Warehouse	—	—	—	—	—	—	—	—
Warehouse	\$3.75 - \$3.75	18,400	18,400	100.0%	0	0	0	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

# Rogers

## City of Rogers



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Rogers had 10,211,583 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 13 percent from October 2003.
- From June to August 2004, Rogers issued commercial building permits valued at a total of \$21,136,534. This represents an increase of 240 percent in building permit value from the second quarter of 2004. Over a third of the value of the building permits was for the new Wal-Mart Supercenter at Pleasant Crossing.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 1,615,715 square feet of commercial space in the third quarter of 2004. This represents 16 percent of the total commercial space in Rogers and is an increase of 19 percent in the reporting rate from the second quarter of 2004.
- From the second quarter of 2004 to the third quarter of 2004, Rogers experienced positive absorption in only one submarket—Class C office space. New construction caused a negative absorption rate in Class A office space, while Class B office, all classes of office/retail and all classes of retail space had zero absorption rates from the second quarter of 2004 to the third quarter of 2004.
- Office vacancy rates increased from about 20 percent of the second quarter 2004 sample to about 23 percent of the third quarter 2004 sample.
- Retail vacancy rates declined from about 24 percent of the second quarter 2004 sample to about 20 percent of the third quarter 2004 sample.
- Lease rates remained about the same in comparable Rogers submarkets from the second to the third quarter of 2004.

## Rogers Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	131,725	—	0.0%	0	0	0	—
Office	\$16.31 - \$16.74	589,271	134,592	22.8%	9,888	18,000	-8,112	40.8
Class A	\$18.92 - \$19.42	508,239	68,628	13.5%	0	18,000	-18,000	—
Class B	\$12.63 - \$12.88	31,867	26,087	81.9%	0	0	0	—
Class C	\$7.28 - \$7.28	49,165	39,877	81.1%	9,888	0	9,888	12.1
Office/Retail	\$9.72 - \$13.22	152,185	26,380	17.3%	0	0	0	—
Class A	\$13.15 - \$13.15	58,000	14,400	24.8%	0	0	0	—
Class B	—	—	—	—	—	—	—	—
Class C	\$8.00 - \$13.25	94,185	11,980	12.7%	0	0	0	—
Office/Warehouse	\$1.75 - \$11.00	21,000	21,000	100.0%	0	0	0	—
Retail	\$12.59 - \$13.21	387,745	92,405	23.8%	0	0	0	—
Class A	\$19.33 - \$19.80	60,372	—	0.0%	0	0	0	—
Class B	\$13.55 - \$14.75	309,326	75,176	24.3%	0	0	0	—
Class C	\$6.34 - \$6.34	18,047	17,229	95.5%	0	0	0	—
Retail/Warehouse	\$4.80 - \$4.80	10,000	10,000	100.0%	0	0	0	—
Warehouse	\$3.90 - \$3.90	323,789	203,326	62.8%	0	0	0	—

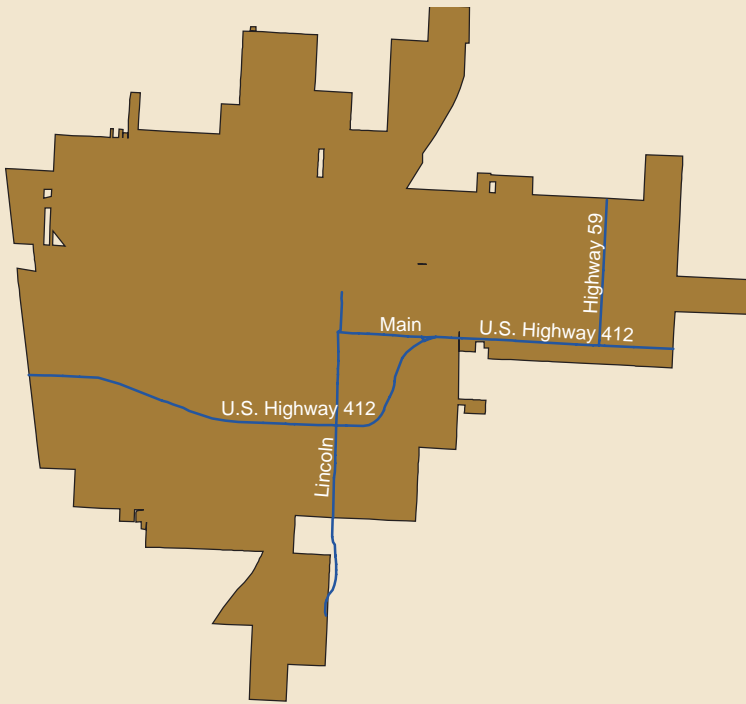
<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents



## Siloam Springs

### City of Siloam Springs



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Siloam Springs had 4,123,211 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 2 percent from October 2003.
- From June to August 2004, Siloam Springs issued building permits valued for 25,446 square feet of commercial space at a total value of \$1,993,393. This represents a decline of 70 percent in building permit square footage and an increase of 16 percent in building permit value from the second quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 95,120 square feet of commercial space in the third quarter of 2004. This represents 2 percent of the total commercial space in Siloam Springs and is a decline of 32 percent in the reporting rate from the second quarter of 2004.
- No absorption rate calculations, vacancy rate comparisons or lease rate comparisons are possible as the samples from the second and third quarters involve different space and are not sufficiently large to provide significant coverage of the market.

## Siloam Springs Commercial Real Estate Market Summary Statistics

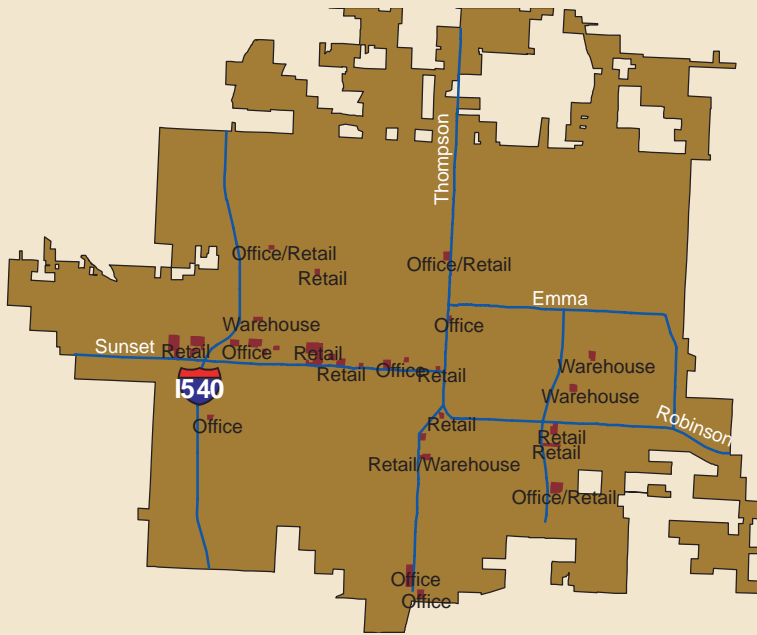
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	—	—	—	—	—	—	—
Office	\$17.50 - \$17.50	120	120	100.0%	0	0	0	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Retail	—	—	—	—	—	—	—	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Office/Warehouse	\$6.00 - \$6.29	14,868	5,400	36.3%	—	—	—	—
Retail	—	—	—	—	—	—	—	—
Class A	—	—	—	—	—	—	—	—
Class B	—	—	—	—	—	—	—	—
Class C	—	—	—	—	—	—	—	—
Retail/Warehouse	—	—	—	—	—	—	—	—
Warehouse	\$3.06 - \$3.06	60,000	—	0.0%	—	—	—	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

## Springdale

### City of Springdale



Geocoding of commercial property parcels is underway for the Skyline Report. This map represents the initial step in identifying summary statistics in a spatial manner. Subsequent reports will contain more complete maps with analysis by property characteristics.

- As of September 2004, Springdale had 11,232,169 square feet of commercial space that meet the CBER specified minimum size criteria. This represents growth of 10 percent from October 2003.
- From June to August 2004, Springdale issued commercial building permits valued at a total of \$6,390,478. This represents an increase of 169 percent in building permit value from the second quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 1,587,078 square feet of commercial space in the third quarter of 2004. This represents 14 percent of the total commercial space in Springdale and is an increase of 4 percent in the reporting rate from the second quarter of 2004.
- From the second quarter of 2004 to the third quarter of 2004, Springdale experienced mixed absorption rates in its various submarkets. Overall, there was negative absorption in the Springdale office and office/retail markets, while there was significant positive absorption in Class B retail space.
- Office vacancy rates increased from about 21 percent of the second quarter 2004 sample to about 27 percent of the third quarter 2004 sample.
- Retail vacancy rates increased from about 10 percent of the second quarter 2004 sample to about 12 percent of the third quarter 2004 sample.
- Lease rates showed a slight increase in all submarkets in Springdale from the second quarter to the third quarter of 2004.

## Springdale Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q2 to Q3 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	—	—	—	—	—	—	—	—
Office	\$11.17 - \$12.25	202,280	53,603	26.5%	-17,821	3,750	-21,571	—
Class A	\$12.10 - \$14.95	62,806	32,000	51.0%	-29,384	0	-29,384	—
Class B	\$11.80 - \$12.63	116,940	18,603	15.9%	11,563	3,750	7,813	4.8
Class C	\$7.32 - \$7.32	22,534	3,000	13.3%	0	0	0	—
Office/Retail	\$10.40 - \$13.00	188,663	33,809	17.9%	8,500	16,000	-7,500	11.9
Class A	—	—	—	—	—	—	—	—
Class B	\$12.33 - \$14.00	53,000	27,000	50.9%	3,000	16,000	-13,000	27.0
Class C	\$7.50 - \$11.50	135,663	6,809	5.0%	5,500	0	5,500	3.7
Office/Warehouse	\$6.75 - \$6.75	173,100	173,100	100.0%	-7,800	0	-7,800	—
Retail	\$11.67 - \$15.32	680,537	81,392	12.0%	73,964	6,000	67,964	3.3
Class A	—	—	—	—	—	—	—	—
Class B	\$12.63 - \$17.28	639,447	69,292	10.8%	70,964	0	70,964	2.9
Class C	\$8.79 - \$9.46	41,090	12,100	29.4%	3,000	6,000	-3,000	12.1
Retail/Warehouse	\$4.00 - \$12.50	104,548	11,000	10.5%	5,000	0	5,000	6.6
Warehouse	\$4.16 - \$4.16	237,950	131,590	55.3%	0	0	0	—

<sup>1</sup>From all Q3 2004 respondents

<sup>2</sup>From Q3 2004 respondents who were also Q2 2004 respondents

## Announcements of New Commercial Projects

The table of announcements of new commercial projects is included as an indication of the future direction of the Northwest Arkansas commercial market. The list is not exhaustive, but represents an effort to gather data at a step before the official permitting process. The managers and owners of many of these properties have provided the CBER with information about these buildings, but until construction is complete, they do not appear in the aggregated total square footage and available square footage calculations. Some of the properties listed are actually under construction, while others are only in the concept phase.

## Announcements of New Commercial Projects

Property	City	Owner/Developer/ Property Manager	Use	Square Feet	Expected Completion Date
The Superior Building	Bentonville	Slone Hanna Partnership	Office	396,000	
Janus II	Bentonville	Bridge Builders Inc.	Office	10,000	
Regency Park Business Center	Bentonville	Rose Properties	Office	13,500	
1007 S.W. A Street	Bentonville	Brian Down	Office	14,500	
1301 S.E. 8 <sup>th</sup> Street	Bentonville		Office/Retail	50,000	
Oak Trace	Bentonville	Charlton	Office	74,000	
Rainbow Curve Professional Center	Bentonville	Dixie Development	Office	38,869	
28 <sup>th</sup> Street	Bentonville		Office	43,500	
Brightwood Business Park	Bentonville	Charlton	Office	29,000	
Fountain Plaza	Bentonville	Lane Real Estate	Retail		
Rainbow Curve Office Building	Bentonville	Haynes Limited	Office	80,000	
The Bentonville Colonnade	Bentonville	Dixie Development	Retail	37,368	November 2004
701-711 J Street	Bentonville		Retail	35,400	
Rainbow Curve Retail Center	Bentonville	Dixie Development	Retail	38,000	
Metro Market	Bentonville		Retail	40,000	
4285 N. Shiloh Drive	Fayetteville	Gary Brandon	Office	28,293	
Southern View	Fayetteville	Southern View Phase II LP	Office/Retail	42,000	
RE/MAX Building	Fayetteville		Office	8,800	
Joyce Boulevard	Fayetteville	Lindsey Office Properties LLC	Office	68,000	
Signature Plaza	Fayetteville	Millennium Plaza LLC	Office	33,000	February 2005
Tower One	Johnson	Orion Realty	Office	60,000	October 2005
The Crossing	Rogers	Parnell Companies	Office	7,000	
Metropark	Rogers	Haynes Limited	Office	20,000	
Southern Hills Business Park	Rogers	Trends LLC	Office	12,000	
The Shoppes at Pinnacle Hills	Rogers	The Pinnacle Group	Office/Retail	180,000	Mid 2005
Pinnacle Hills Promenade	Rogers	The Pinnacle Group	Retail	1,200,000	Fall 2006
The Crossing	Rogers	Parnell Companies	Retail	17,000	
Pleasant Crossing	Rogers	Charles Reaves, et al	Retail	1,000,000	December 2005
Walnut & 37 <sup>th</sup> Street	Rogers	Dixie Development	Retail	21,350	
I-540 & 48th Street	Springdale	USI-Arkansas Inc.	Office	10,000	January 2005

## Interpreting the Numbers in the Skyline Report

The methodology that is used to produce the Skyline report has been designed to elicit the most useful, comprehensive, and up-to-date information available about the Northwest Arkansas commercial real estate market. Data come from three primary sources that complement one another. Each source, however, has limitations, and as such, results should be compared and interpreted carefully.

The first source of data that the Skyline report contains comes directly from the offices of the Washington and Benton County Assessors. The Benton County Assessor Office uses Apprentice Data Systems as the subcontractor to handle data requests. On a quarterly basis, CBER staff members acquire databases containing listings of all real estate parcels within each county. The information contained in these databases is sorted by type and by size. In order to determine the population of commercial properties of interest, properties that do not meet the following minimum criteria are eliminated from consideration:

- Banks: 20,000 square feet
- Department Stores: 20,000 square feet
- Discount Stores: 20,000 square feet
- Industrial Buildings: 20,000 square feet
- Markets: 20,000 square feet
- Commercial Office Buildings: 5,000 square feet
- Medical Office Buildings: 5,000 square feet
- Retail Buildings: 10,000 square feet
- Community Shopping Centers: 5,000 square feet
- Neighborhood Shopping Centers: 5,000 square feet
- Warehouses: 20,000 square feet

All buildings that do meet the set criteria are included in the calculations of total square feet for each city. This number represents the whole population of commercial properties, including owner-occupied, specialized, and fully leased buildings in addition to the competitive properties that are the focus of the remainder of the study.

The second source of data for the Skyline Report is building permit reports from the cities of Northwest Arkansas. Each city has its own reporting requirements for building permits, which makes in-depth comparisons on a city-by-city basis impossible. Bentonville and Fayetteville have the most comprehensive building permits, which include information on the square footage of buildings and their uses in addition to the value of the permit and identifying characteristics of the property. The other cities in Northwest Arkansas only report the building address, contractor name, and value of the permit. In general, property owner or developer names are not included on building permits in Northwest Arkansas. Building permits also do not provide any sense of the estimated time of completion of a project or availability for leasing.

The third source of data for the Skyline report is a panel of large commercial property owners and managers. These individuals are responsible for the bulk of the competitive commercial properties in Northwest Arkansas. CBER researchers gather information on square footage available to the market, lease rates, and other property characteristics from the panelists. In the third quarter of 2004, 31 panelists provided data on 330 competitive properties across Benton and Washington Counties. Data are excluded for owner-occupied and dedicated spaces so that the total square feet, available square feet, and lease rates represent a sample only from properties that are currently or potentially available for lease. Vacancy rates are calculated from the sample of 330 properties and are assumed to be representative of the larger competitive commercial property market.



The panel participants vary somewhat from quarter to quarter as new contributors are added and as previous contributors fail to respond for new requests for information. Time trend analysis is dependent on having a consistent base of information so that apples-to-apples comparisons can be made. Absorption rates are only calculated for properties that are part of a matched sub-sample—that is, there must have been information received about a particular property in the two most recent quarters for the number to be included in the calculated property absorption rates. The one exception to this rule is for new properties that are completed and come online for leasing in the most recent quarter. The months of inventory calculations are based on the quarter-to-quarter absorption rates. As absorption rates are likely to vary across quarters, the single absorption rate observed in this Q3 2004 report may not be typical. As the time series lengthens, the precision of the months of inventory statistic will improve.

The coverage of the Skyline Report depends on the participation of Northwest Arkansas commercial property managers and owners. The Skyline Report can only detail those properties for which data has been provided. The results that are reported may understate or overstate the true vacancy and absorption rates in the competitive commercial market if coverage is not representative of the entire commercial property inventory.

In order to supplement the information that is directly received from the panelists, CBER researchers also depend on business publications, public websites, and other data.

## Classification

In order to compare similar spaces, CBER has developed a classification system for office, office/retail, and retail spaces. These classes rate the quality of each building in terms of the following criteria: age, quality of construction, location, and included amenities. Class A space represents the most prestigious buildings available in the Northwest Arkansas market. These spaces are new or newly renovated, made of the best quality materials, with brick, masonry, or glass exteriors. Class A buildings are located in highly accessible locations with easy access to major clients or customers.

Class B space includes buildings that compete for a wide range of uses, including much of the Wal-Mart vendor community. These spaces have average range rents. The buildings are attractive, but not necessarily brand new, and have a lower level of material quality than Class A buildings. Many amenities are not included in the base lease price of Class B buildings.

Class C space is adequate for users that require functional space for their businesses, but not above average locations, materials, or amenities. These buildings are often older and have lease rates that are below market averages.