



THE SKYLINE REPORT

SPONSORED BY ARVEST BANK

October 2006
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 Third Quarter of 2006

- In the third quarter of 2006, 1,652,460 square feet of competitive commercial property were added to the Northwest Arkansas market. Over a million square feet of this space were included in the Pinnacle Promenade in Rogers.
- In the office market, there was negative net absorption of 73,283 feet after accounting for the entry of 315,915 new square feet of space.
- Likewise, within the retail submarket there was absorption of 844,810 square feet and the entry of 1,003,566 new square feet, netting negative net absorption of 158,756 square feet.
- The office/retail markets in Bentonville, Rogers, Fayetteville, and Springdale each experienced negative net absorption in the third quarter of 2006. There were 197,339 square feet of office/retail space added to the market, while only 100,626 square feet were occupied.
- The warehouse submarket rebounded from the second quarter with positive net absorption of 62,262 square feet, distributed in Fayetteville, Lowell, Rogers, and Springdale.
- From June to August 2006, there were \$82.7 million in commercial building permits issued in Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale. This represents a decline of 23.7 percent over the same period in 2005.
- The spread between long term and short term interest rates became negative during July, August, and September. Long term interest rates continue to be historically attractive for developers financing their projects, but are above their low levels of the past two years.

Vacancy Rates by Submarket

Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	17.2%	21.9%	13.7%	4.3%	9.9%	–	3.7%	15.8%
Q4 2005	20.4%	22.3%	9.0%	4.2%	16.2%	7.0%	4.2%	16.0%
Q1 2006	20.4%	24.1%	8.6%	1.3%	16.4%	3.3%	2.2%	16.7%
Q2 2006	35.5%	20.0%	10.9%	1.8%	14.0%	1.9%	2.6%	14.8%
Q3 2006	35.5%	17.8%	9.0%	12.5%	20.3%	2.7%	5.0%	15.2%

Medical Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	–	34.3%	1.8%	–	13.7%	4.1%	16.8%	5.8%
Q4 2005	34.6%	24.6%	1.1%	–	9.0%	7.0%	1.6%	4.2%
Q1 2006	34.6%	60.2%	2.0%	–	22.5%	2.1%	0.0%	15.3%
Q2 2006	34.6%	53.9%	4.3%	–	22.5%	2.1%	10.3%	15.1%
Q3 2006	34.6%	27.9%	8.5%	–	22.6%	3.1%	1.6%	16.1%

Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	2.9%	27.6%	17.3%	16.7%	6.8%	13.5%	10.3%	17.6%
Q4 2005	3.2%	17.1%	11.8%	0.0%	8.4%	15.8%	14.1%	13.4%
Q1 2006	4.2%	14.2%	9.2%	0.0%	6.4%	17.7%	14.4%	11.3%
Q2 2006	6.4%	18.5%	13.3%	0.0%	31.0%	7.1%	12.8%	14.9%
Q3 2006	12.9%	23.0%	16.8%	13.9%	19.4%	0.0%	16.4%	18.2%

Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	–	25.4%	93.8%	–	12.3%	44.9%	56.8%	39.9%
Q4 2005	–	31.4%	93.8%	–	13.2%	0.0%	24.9%	27.5%
Q1 2006	–	32.5%	93.8%	–	12.3%	0.0%	13.7%	20.1%
Q2 2006	–	33.0%	93.8%	100.0%	5.5%	0.0%	7.0%	24.5%
Q3 2006	–	30.5%	94.6%	94.7%	8.1%	0.0%	8.1%	23.2%

Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	0.0%	21.2%	6.1%	7.8%	13.8%	4.9%	6.2%	8.7%
Q4 2005	0.0%	20.1%	6.5%	4.7%	15.1%	6.0%	7.8%	9.9%
Q1 2006	3.9%	18.6%	5.7%	4.7%	12.8%	10.6%	6.8%	9.0%
Q2 2006	0.0%	16.8%	5.6%	10.9%	17.2%	8.8%	4.9%	9.3%
Q3 2006	0.0%	17.2%	6.3%	10.4%	14.6%	6.7%	5.0%	9.7%

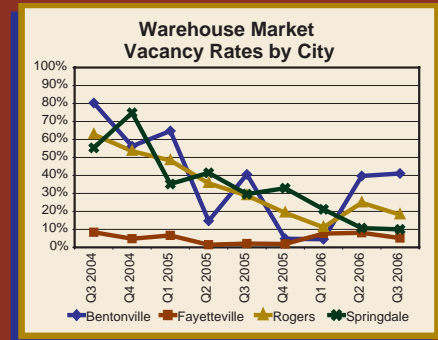
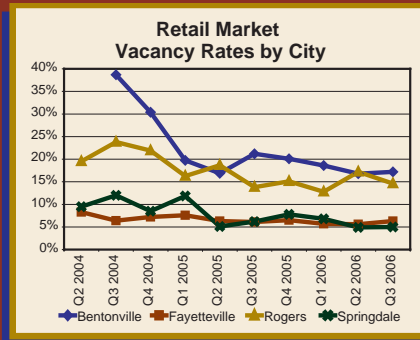
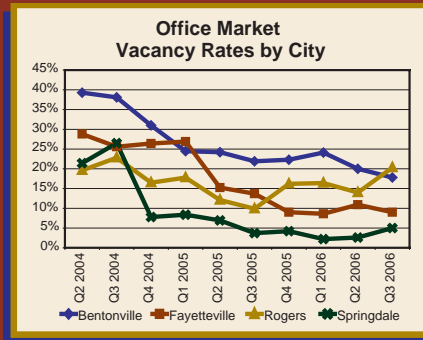
Retail/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	–	95.7%	0.0%	–	60.0%	–	28.3%	70.3%
Q4 2005	–	0.0%	20.0%	7.5%	60.0%	–	28.3%	25.7%
Q1 2006	–	0.0%	0.0%	0.0%	60.0%	100.0%	34.8%	33.0%
Q2 2006	–	0.0%	0.0%	0.0%	9.3%	100.0%	13.2%	18.1%
Q3 2006	–	0.0%	0.0%	55.2%	0.0%	100.0%	11.1%	16.5%

Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	–	40.6%	2.1%	100.0%	28.8%	–	29.6%	17.6%
Q4 2005	–	4.8%	1.9%	63.9%	19.2%	–	32.9%	12.4%
Q1 2006	–	4.5%	7.7%	63.9%	11.2%	–	21.2%	11.7%
Q2 2006	0.0%	39.7%	8.1%	79.6%	24.8%	–	10.7%	18.5%
Q3 2006	0.0%	41.1%	5.2%	43.5%	18.2%	–	10.0%	16.0%

Vacancy Rate Trends



Net Absorption by Submarket

Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	0	953	34,170	896	-21,566	--	5,989	20,442
Q4 2005	550	10,860	4,968	50	-88,559	--	1,900	-70,231
Q1 2006	0	-77,447	3,891	3,500	17,275	2,050	8,601	-42,130
Q2 2006	0	51,815	-25,444	1,500	29,386	1,200	887	59,344
Q3 2006	0	36,194	32,561	0	-128,514	-700	-12,824	-73,283

Medical Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	--	-2,850	0	--	-898	0	3,534	-214
Q4 2005	0	0	1,300	--	1,048	-2,017	4,000	4,331
Q1 2006	0	-43,500	511	--	-3,000	2,050	750	-43,189
Q2 2006	0	1,510	-804	--	0	0	0	706
Q3 2006	0	19,400	-4,600	--	-32	-700	-900	13,168

Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	212	-6,323	16,746	0	2,900	-5,000	11,179	19,714
Q4 2005	700	3,581	-31,648	0	-10,299	-600	-12,380	-50,646
Q1 2006	-728	14,408	3,218	0	3,500	-1,000	-3,846	15,552
Q2 2006	-4,980	-24,143	-31,287	0	-70,020	5,400	-568	-125,598
Q3 2006	-18,575	-29,483	-37,802	-2,210	-6,471	3,600	-5,772	-96,713

Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	--	-14,400	27,360	--	-10,872	0	-18,000	-15,912
Q4 2005	--	199,300	0	--	0	50,507	-39,959	209,848
Q1 2006	--	-16,528	0	--	2,000	0	49,170	34,642
Q2 2006	--	-8,935	0	0	14,412	0	11,900	17,377
Q3 2006	--	-32,750	0	-4,720	1,470	0	7,900	-28,100

Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	0	90	5,857	-2,809	2,616	-10,000	10,600	6,354
Q4 2005	0	-15,293	10,794	3,200	-66,311	-275	2,600	-65,285
Q1 2006	-3,000	2,854	15,424	0	21,217	-12,480	13,010	37,025
Q2 2006	0	11,336	1,775	-3,750	27,247	4,080	-13,948	26,740
Q3 2006	0	-8,667	-37,174	-1,316	-106,541	7,076	-12,134	-158,756

Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2005	--	-10,200	12,000	-400	0	--	0	1,400
Q4 2005	--	64,150	0	0	16,800	--	20,925	101,875
Q1 2006	--	11,900	0	0	42,622	--	43,350	97,872
Q2 2006	0	-180,600	-500	-22,150	-34,940	--	0	-238,190
Q3 2006	0	0	21,500	18,400	15,112	--	7,350	62,362

Average Lease Rate Trends by Type, Class, and City

