

THE

SKYLINE REPORT

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**October 2006
Highlights**

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**Multifamily Real Estate Market Summary,
Prepared Exclusively under Contract
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Multifamily Real Estate Market Summary for Benton and Washington Counties

This report contains highlights from the Multifamily 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

- Vacancy rates for multifamily properties in Northwest Arkansas increased from their second quarter 2006 level of 7.5 percent to 7.7 percent in the third quarter of 2006. The third quarter 2006 vacancy rate was higher than the third quarter 2005 vacancy rate of 5.7 percent.
- Fayetteville had the lowest aggregate vacancy rate at 4.9 percent, down from its rate of 5.7 percent in the second quarter. The Rogers vacancy rate also fell to 7.5 percent. The vacancy rate in Bentonville was up from the second quarter rate of 7.6 percent to 12.5 percent in the third quarter. The Springdale vacancy rate also rose to 11.7 percent. Vacancy rates rose in Siloam Springs from 4.8 to 5.0 percent.
- The average lease price per month for a multifamily property unit in Northwest Arkansas was up about \$11 to \$514.
- On a price per square foot basis, multifamily units were least expensive on average in Siloam Springs at \$0.54 per square foot and most expensive on average in Fayetteville at \$0.64 per square foot.
- Additional condominium projects were announced in Northwest Arkansas. Most of the multiple story condominium activity is in Fayetteville, while in Rogers and Bentonville, condominium complexes are coming on the market.

Economic Overview

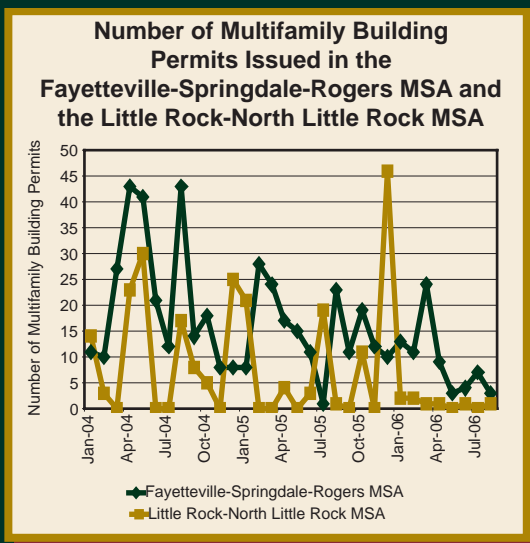
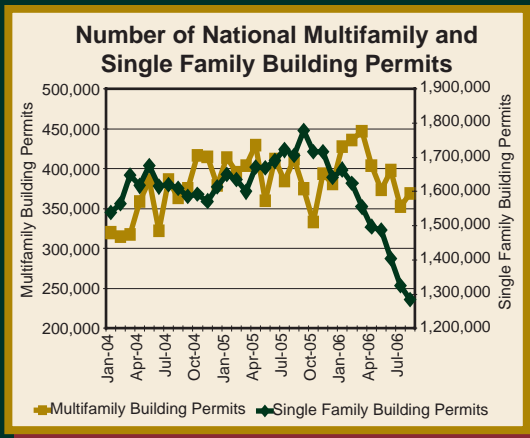
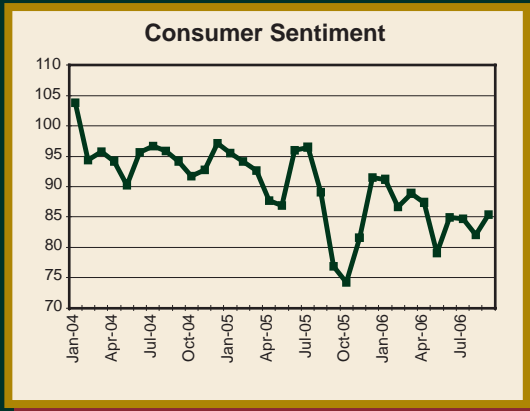
To get a sense of the Northwest Arkansas multifamily housing market, it is useful to look at some key macroeconomic statistics. The University of Michigan produces the Consumer Sentiment Index. The Index of Consumer Sentiment was 85.4 in the September 2006 survey, up from 82.0 in August 2006, and significantly up from the Katrina-influenced value of 76.9 in September of 2005. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, rose slightly to 78.2 in September from 68.0 in August and the 63.3 recorded in September of 2005. In contrast, the Current Economic Conditions Index fell to 96.6 in September 2006, down from 103.8 in August and 98.1 in September 2005.

"Consumers held a much more positive outlook for the overall economy as well as prospect for their own financial situation, despite more negative evaluations of their current financial situation," according to Richard Curtin, the Director of the University of Michigan's Survey of Consumers.

The U.S. Census Bureau estimates the issuance of building permits. The August 2006 national level of multifamily building permits reflected a one month improvement and was not significantly below the August 2005 level, while the August 2006 single family building permits reflected an eleven month decline from their most recent high in September 2005. The August 2006 level of single family building permits was significantly lower than the August 2005 level.

Turning to the two major metropolitan areas in Arkansas, the Fayetteville-Springdale-Rogers (FSR) MSA and the Little Rock-North Little Rock (LR) MSA, different patterns on a smaller scale are apparent. The accompanying graphs show the number of multifamily building permits and total number of residential building permits issued in the two metro areas. Interestingly, despite its much smaller population, the FSR metro area had a greater number of building permits (both multifamily and total) than the LR metro area during the past twelve months. Despite a great deal of seasonal variation, the trends of the multifamily building permits and total building permits in the both metropolitan areas are declining slightly. No significant changes in the pace of growth in the number of residential or multifamily building permits are expected.

On September 20, 2006 the Federal Reserve Board left the target for the federal funds rate unchanged at 5.25 percent. This was the second meeting of the Federal Reserve where no change was implemented. As the accompanying graph shows, the spread between short term rates



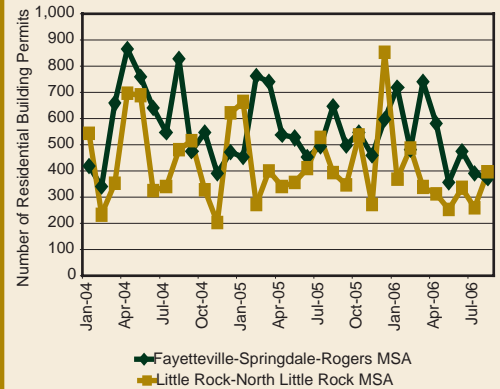
and conventional 30-year mortgage rates has declined more than 325 basis points since its most recent peak in June 2004. The ten-year treasury interest rate and the 30-year conventional mortgage rate bottomed out in June of 2005 and have been increasing moderately since that time, but not at the same velocity as short term rate increases. In the past few months, longer term interest rates have declined a bit, even as the three-month rate has increased. This has caused an inversion of the yield curve at some maturity levels.

Finally, a graph showing employment trends in the FSR metro area is included. Employment in the region continues to grow at the same pace as its five-year trend, adding approximately 600 jobs a month to the region. Because employment growth is the single most important factor in determining demand for housing of all kinds, there must be an awareness of the possibility of structural changes in the labor market. The data show no evidence that the rate of job growth in Northwest Arkansas will abate in the near term.

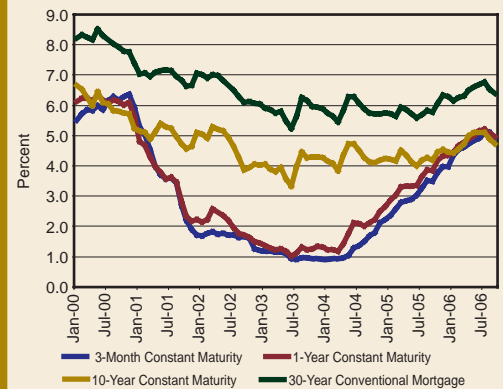
Northwest Arkansas Average Unit Size and Price by Floor Plan Q3 2006

Floor Plan	Average Square Feet	Average Price per Month	Average Price per Square Foot
Studio	421	\$355.91	\$0.84
1 Bedroom	611	\$429.55	\$0.70
2 Bedroom	909	\$528.23	\$0.58
3 Bedroom	1,230	\$717.83	\$0.58
4 Bedroom	1,242	\$713.88	\$0.57
Northwest Arkansas	836	\$513.76	\$0.61

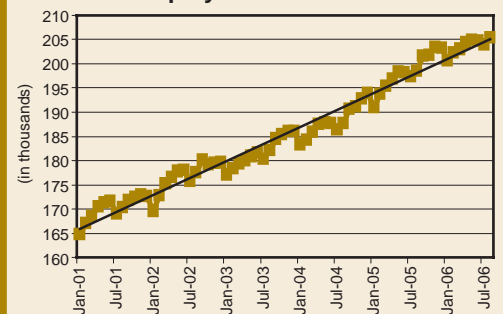
Number of All Residential Building Permits Issued in the Fayetteville-Springdale-Rogers MSA and the Little Rock-North Little Rock MSA



Selected Interest Rates



Fayetteville-Springdale-Rogers MSA Employment and Trend



Multifamily Residence Building Permits September 2005 - August 2006

Date	Complex or Developer	Number of Permits	Total Value of Permits	City
9/2/2005	40 E Maple Street	1	\$262,300	Fayetteville
9/12/2005	Arbors at Pinnacle Ridge	44	\$4,288,724	Rogers
10/18/2005	Remington Place	16	\$11,643,915	Springdale
11/21/2005	Bedford Loop Apartments	2	\$1,162,298	Fayetteville
11/22/2005	Netherland Way 4-plexes	2	\$678,272	Fayetteville
12/1/2005	Thorne Company	1	\$609,082	Fayetteville
12/1/2005	EWI	1	\$3,201,906	Fayetteville
1/3/2006	Fairlane Apartments	5	\$6,379,994	Fayetteville
1/11/2006	1322 W. Cleveland Street	1	\$956,744	Fayetteville
1/11/2006	The Links at Springdale	15	\$13,160,390	Springdale
1/13/2006	Campus Properties	1	\$497,349	Fayetteville
2/6/2006	Sunset Development	12	\$10,617,600	Bentonville
4/3/2006	West Cedar Circle Apartments	43	\$2,150,000	Rogers
4/17/2006	North Corner Condos	3	\$480,000	Fayetteville
4/24/2006	Piedmont Condos	4	\$2,271,000	Fayetteville
6/8/2006	Junction Street Apartments	3	\$1,942,392	Fayetteville
Total		154	\$60,301,966	

Northwest Arkansas Vacancy Rates by Floor Plan Q3 2006

Market Area	1 Bedroom	2 Bedroom	3 Bedroom
Bentonville	18.8%	8.1%	10.5%
Fayetteville	4.6%	4.8%	8.1%
Rogers	7.7%	7.3%	10.8%
Siloam Springs	3.5%	5.6%	3.3%
Springdale	8.6%	12.1%	17.2%
Northwest Arkansas	7.7%	7.2%	11.6%

