

THE SKYLINE REPORT

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October 2007 Highlights

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Multifamily Real Estate Market Summary
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Multifamily Real Estate Market Summary for Benton and Washington Counties

This report is the thirteenth edition of the Skyline Report for Benton and Washington Counties—Multifamily 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 multifamily real estate market. This study is a companion piece to the quarterly single-family residential and commercial Skyline Reports. As the population of the region grows, there is increased demand for all types of housing. Understanding the supply of multifamily housing opportunities is critical to understanding the overall residential market, particularly as low interest rates have made home ownership more appealing relative to leasing comparable residential space. The information contained in the following pages details the current condition of the multifamily market and sets the stage for future comparisons.

Highlights from the Third Quarter of 2007

- Average vacancy rates for multifamily properties in Northwest Arkansas increased from their second quarter level of 9.9 percent to 12.2 percent in the third quarter of 2007. The third quarter 2007 vacancy rate was significantly higher than the third quarter 2006 vacancy rate of 7.7 percent.
- Fayetteville had the lowest aggregate vacancy rate at 8.3 percent, up from 7.0 percent in the second quarter. Rogers had the highest aggregate vacancy rate at 18.4 percent, up from 7.2 percent in the second quarter. The Bentonville vacancy rate fell 3.3 percentage points to 14.7 percent in the third quarter. Siloam Springs and Springdale both had increases in vacancy rates to 9.8 and 14.5 percents, respectively.
- The average lease price per month for a multifamily property unit in Northwest Arkansas was up about \$7.50 to \$520.
- On a price per square foot basis, multifamily units were least expensive on average in Siloam Springs at \$0.55 per square foot and most expensive on average in Fayetteville at \$0.65 per square foot.

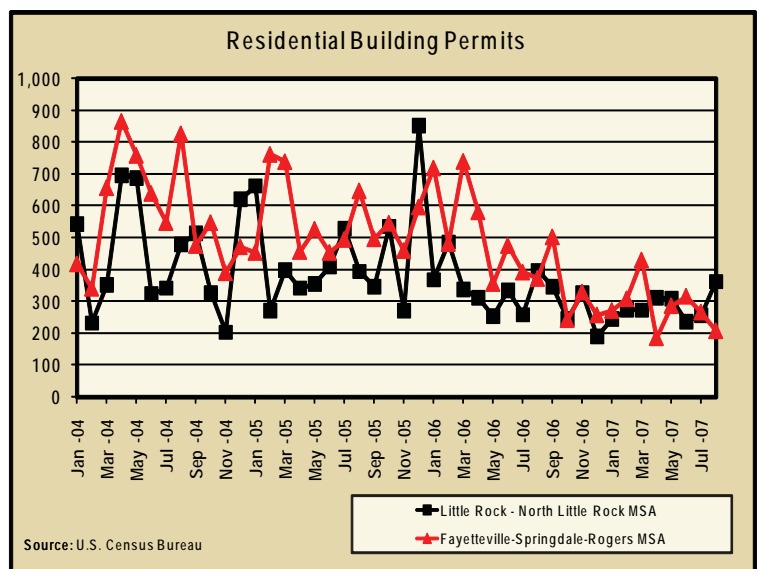
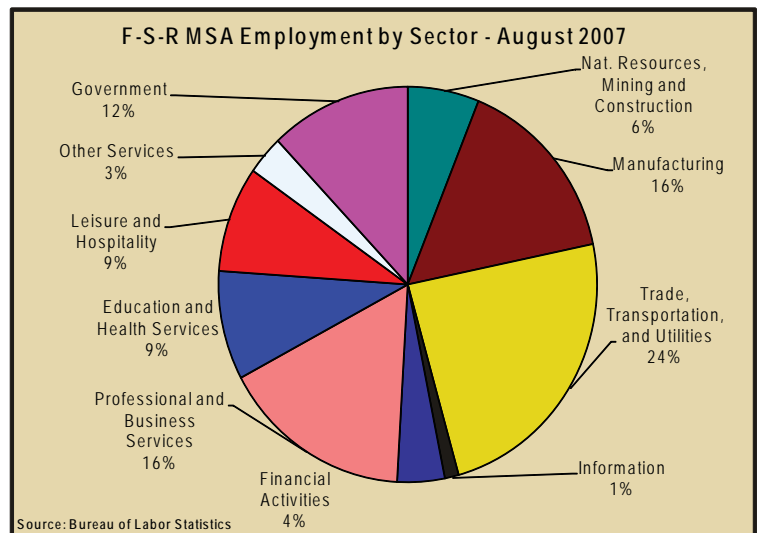
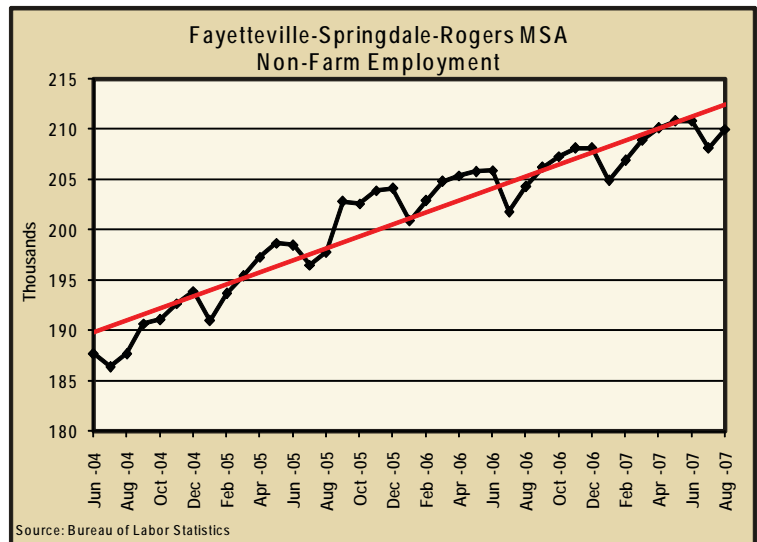
Multifamily Market Trends

To get a sense of the Northwest Arkansas multifamily housing market, it is useful to look at some key macroeconomic statistics. A graph showing non-farm employment trends in the Fayetteville-Springdale-Rogers metro area is included. Between August 2006 and August 2007 the Northwest Arkansas economy added on average 475 jobs per month which is below the five year average of 562 jobs per month. However, looking at the individual data points for the first months of 2007 reveals slightly stronger employment growth in 2007 than was experienced in early 2006. Consistent with previous years, employment growth was far below trend in June through August 2007. The last quarter will be telling as to whether employment growth in Northwest Arkansas in 2007 will look more like the moderated growth of 2006 or the strong employment growth of 2005.

The employment numbers bear careful watching in the next few months because the demand for much of the new and expected multi-family development relies on the assumption that job growth remains strong.

The U.S. Census Bureau estimates the issuance of building permits. The August 2007 national level of multifamily building permits reflected the decline from the highs seen in the first two quarters of 2007. The August 2007 level of single family building permits reflected a continued downward slide that began in September 2005, and is indicative of continued weakness in the market.

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 multifamily building permits than the LR metro area during the past twelve months, and very similar totals for residential building permits. Despite a great deal of seasonal variation, the trends of the multifamily building permits and total building permits in the both metropolitan areas have declined since the highs seen in 2004 and 2005. No significant changes in the pace of growth in the number of residential or multifamily building permits are expected in the short term.



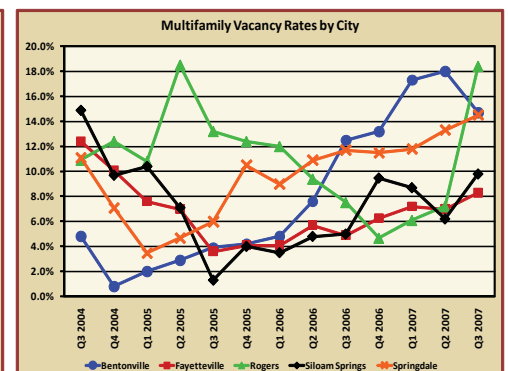
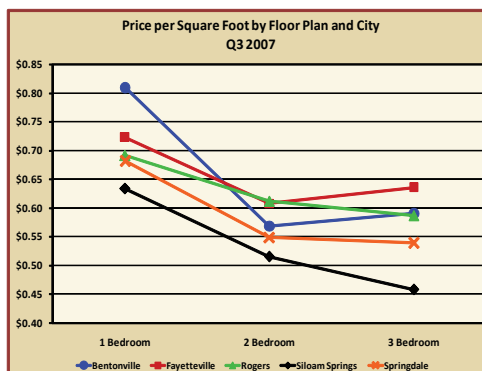
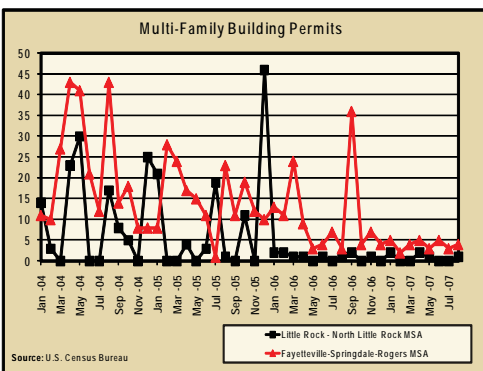
Multifamily Market Trends

The associated table details the building permits that have been issued for multifamily housing purposes over the past twelve months. Five projects with values greater than a million dollars were permitted during the period. Three of these were located in Fayetteville, one in Springdale, and one was located in Rogers. The Fayetteville projects involve the construction of the Chestnut Condos, the Beacon Flats, and the third phase of the Nantucket Apartments. The Springdale project is the Chester Heights apartments. The Rogers project is Avignon Court.



Multifamily Residence Building Permits September 2006 - August 2007

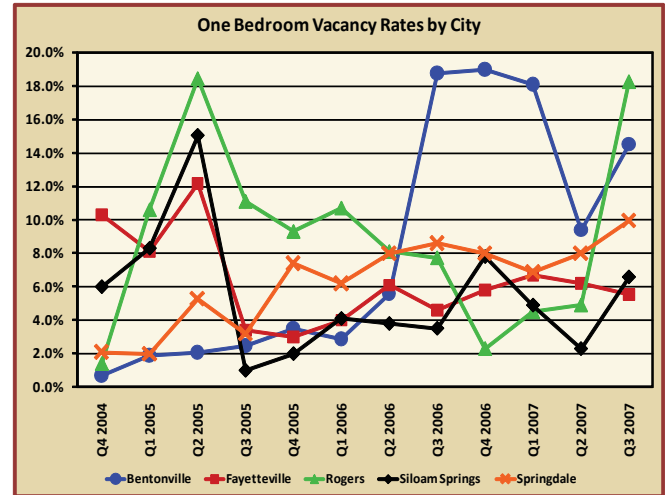
Date	Complex or Developer	Number of Permits	Total Value of Permits	City
9/27/2006	Creekfront Lofts	2	\$978,347	Fayetteville
11/13/2006	The Links at Springdale, Phase II	1	\$902,214	Springdale
11/16/2006	Chestnut Condos	2	\$1,433,676	Fayetteville
11/22/2006	Beacon Flats	2	\$1,050,000	Fayetteville
11/22/2006	Lafayette Street Apartments	1	\$594,547	Fayetteville
12/8/2006	Chester Heights	15	\$9,065,226	Springdale
2/23/2007	Nantucket Apartments, Phase III	10	\$4,722,500	Fayetteville
2/27/2007	Hidden Lake Apartments	1	\$472,569	Springdale
4/13/2007	260 W 6th Street	1	\$424,658	Fayetteville
4/17/2007	Locust Street Townhomes	1	\$763,039	Fayetteville
5/10/2007	1344 N Oakland Avenue	1	\$690,276	Fayetteville
6/1/2007	Avignon Court	31	\$3,224,000	Rogers
Total		68	\$21,097,052	



Multifamily Market Trends

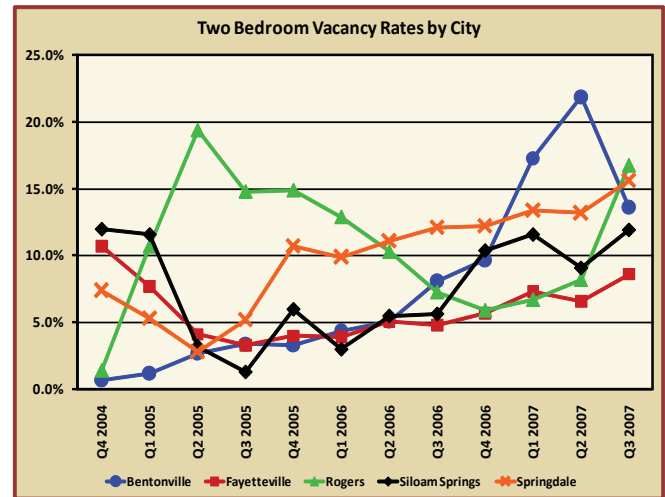
Sample Vacancy Rates

Market Area	Number of Apartment Complexes	Number of Units	Q3 2007 Vacancy Rate	Q2 2007 Vacancy Rate	Q3 2006 Vacancy Rate
Bentonville	107	3,102	14.7%	18.0%	12.5%
Fayetteville	259	11,066	8.3%	7.0%	4.9%
Rogers	73	3,886	18.4%	7.2%	7.5%
Siloam Springs	37	1,074	9.8%	6.2%	5.0%
Springdale	77	5,431	14.5%	13.3%	11.7%
NWA	553	24,559	12.2%	9.9%	7.7%



Average Size and Price by Floor Plan Q3 2007

Floor Plan	Average Square Feet	Average Price per Month	Average Price per Square Foot
Studio	387	\$403.65	\$1.04
1 Bedroom	612	\$437.71	\$0.72
2 Bedroom	910	\$534.82	\$0.59
3 Bedroom	1,222	\$726.15	\$0.59
4 Bedroom	1,320	\$794.64	\$0.60
NWA	833	\$519.60	\$0.62



Vacancy Rates by Floor Plan Q3 2007

Market Area	1 Bedroom	2 Bedroom	3 Bedroom
Bentonville	14.5%	13.6%	24.5%
Fayetteville	5.5%	8.6%	16.1%
Rogers	18.3%	16.8%	47.9%
Siloam Springs	6.6%	11.9%	12.5%
Springdale	10.0%	15.6%	22.7%
NWA	9.9%	12.2%	23.0%

