



# THE SKYLINE REPORT

*for Benton and Washington Counties*

**Commercial Real Estate  
Market Summary  
January 2005**



SAM M.  
**WALTON**  
COLLEGE of BUSINESS

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## Commercial Real Estate Market Summary

This report is the third edition of the Skyline Report for Benton and Washington Counties—Commercial Real Estate Market Analysis. 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 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 a 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 Fourth Quarter of 2004

- The Northwest Arkansas office space market recovered somewhat in the fourth quarter of 2004 with 31,182 square feet of positive net absorption.
- In the retail space market, there was a negative net absorption of 55,824 in the fourth quarter of 2004. This includes the addition of 22,005 new square feet of retail space in Rogers and Fayetteville.
- The warehouse submarket experienced positive net absorption of 80,618 square feet in the fourth quarter.
- From September 2004 to November 2004, there were \$39.2 million in commercial building permits issued in Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale.
- Focus group respondents indicated concerns that there was oversupply of office space in Bentonville and in strip retail centers throughout the region.
- Short-term interest rates continued their upward climb, although long-term interest rates remained steady, causing a 165 basis point drop in the spread.
- Northwest Arkansas employment continued to increase at its four-year average rate during the fourth quarter, implying no slowdown in demand for residential or commercial development.

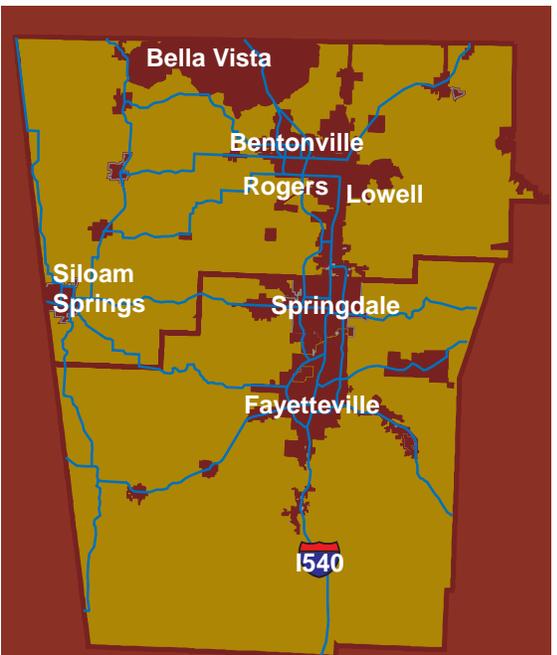
## Report Structure

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. These data sets are then filtered to exclude properties that are not part of the competitive leasing market. These excluded properties include owner-occupied buildings and other dedicated spaces. Additionally, commercial properties that do not meet certain minimum size criteria (detailed on page 26) are also filtered from the base of commercial properties considered. As a second source of data, building permit information is collected from the relevant divisions 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 of the three types of information that is collected gives a unique, but critical perspective of 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, the Skyline Report contains 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, focusing on regional employment trends, 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 fourth 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 68 panelists provide information is broken down by city and the percentage of coverage of the competitive market is calculated. A table containing publicly announced new commercial real estate projects is presented after the summary of building permit data. 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 and subject to change.



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.

Following the table of announced commercial projects are two tables summarizing some results from the three quarters that the Skyline Report has been produced. The first table presents vacancy rates by submarket for the second, third, and fourth quarters. The second table presents net absorption by submarket for the third and fourth quarters. These tables are the foundation for the performing trend analysis and eventually for separating the seasonal effects from real effects. The results in the tables are referred to throughout the remainder of the Skyline Report.

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.

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***

Much of the interesting national data for the fourth quarter of 2004 have not yet been released as of press time. Third quarter GDP growth was revised upward from 3.3 percent to 4.0 percent, implying that the national economy grew at a slightly above trend rate. In the third quarter, personal income increased at 0.2 percent, the same rate as in the first and second quarter of 2004. Turning to more recent available data, in November, the national unemployment rate was a seasonally adjusted 5.4 percent. The Conference Board's Consumer Confidence Index, which had been on the decline since August, rebounded in December and the Expectations Index also rose.

Taken together, these data imply that the national economy is chugging along in an unexceptional way. Additionally, inflation remains relatively muted. During the first 11 months of 2004, the CPI-U rose at a 3.7 percent seasonally adjusted annual rate (SAAR). This compares with an increase of 1.9 percent for all of 2003. Part of the impetus for the Federal Reserve's continued raising of short term interest rates is to contain potential inflationary pressures. Of particular interest is the consumer price index for energy, which increased 6.9 percent in 2003, and advanced at a 20.5 percent SAAR in the first 11 months of 2004.

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

The Federal Reserve continued in its incremental raising of short-term interest rates in the fourth quarter of 2004. The Fed Funds target now stands at 2.25 percent, up 125 basis points from its historic low in 2003. Indications are that the Fed will continue to remove monetary stimulus from the economy in the face of some inflationary pressures and continued steady growth of the macroeconomy. Monetary policy continues to be at odds with a highly stimulatory fiscal policy at the national level.

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

Even as short-term rates climbed in 2004, longer term rates held almost steady. The ten year constant maturity treasury bill had an interest rate of 4.15 percent in January 2004 and a rate of 4.23 percent in December 2004. The upward pressure on short-term rates combined with steady long-term interest rates implied a decline in the spread between the two. The accompanying figure shows the spread between the Fed Funds Rate and the ten year Treasury bill since January 2000. The summer and fall of 2004 saw a 165 basis point drop in the spread.

## Regional Employment Trends

Local demand for real estate is uniquely associated with employment growth in the region. The Northwest Arkansas employment situation has been extremely conducive to both residential and commercial development in recent years. The most recent numbers available show that there is no reason to believe that a significant slowdown is occurring.

The accompanying figure shows that in September, October, and November 2004, employment in the Fayetteville-Springdale-Rogers MSA increased at recent trend levels. From January through August 2004, employment growth was not keeping up with its four-year trend growth rates, but a substantial jump in employment in September put the numbers back on track. Since January of 2000, employment growth has averaged 0.3 percent per month. As of November 2004, employment growth in the MSA was averaging 0.2 percent per month for 2004. During the same period, national employment growth averaged 0.1 percent per month.

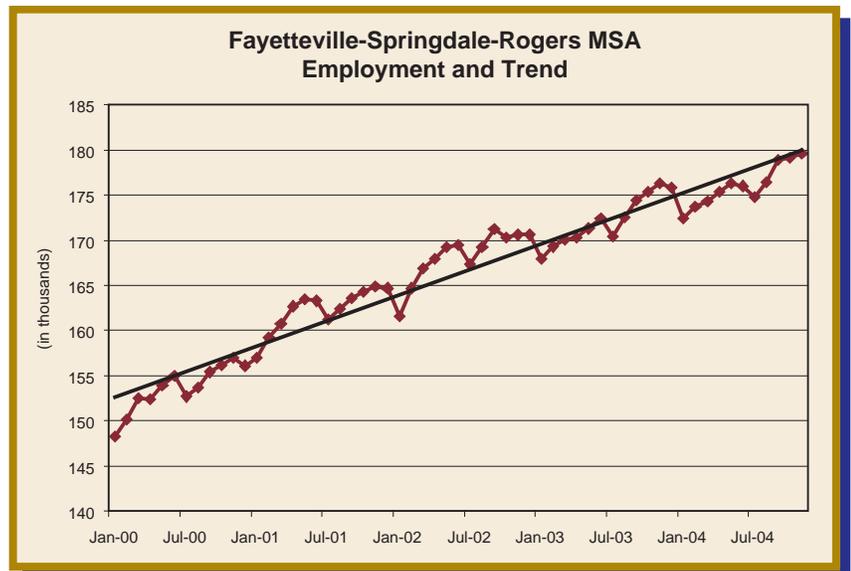
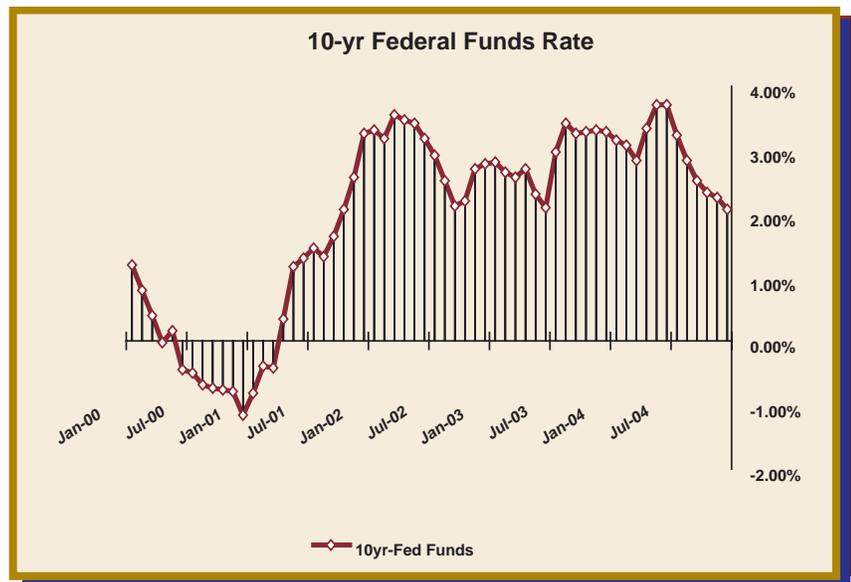
## Other Regional Economic Indicators

In November 2004, the unemployment rate in Northwest Arkansas was 2.4 percent, up just slightly from the 2.2 percent rate in October. These rates are as low as the Northwest Arkansas unemployment rate has been since November 2002. In November, the state unemployment rate was a seasonally adjusted 5.6 percent, while the national unemployment rate was 5.4 percent. Northwest Arkansas continues to outperform the state and national economies.

Taxable sales in the MSA increased 9.6 percent from October 2003 to October 2004, while they increased only 3.3 percent for the entire state during the same period. Average weekly manufacturing earnings grew 6.9 percent, based on preliminary estimates, in the MSA from November 2003 to November 2004. Average weekly manufacturing earnings growth was much muted in the state as a whole during the same period at 0.2 percent.

## 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 insight that complement analysis of numerical data. To that end, in-depth conversations with 11 commercial developers and/or property managers were conducted by CBER staff to get the observations, attitudes and perspectives of those who are involved in the commercial real estate market in Northwest Arkansas. The themes running through these conversations were pretty common, although the perspectives on these themes differed. Panelists talked about the current state and pace of the market, the severity of any oversupply situations, the vendor community, infrastructure concerns and other barriers to continued growth. About half of those interviewed felt that the



current market is still very strong. Some even ventured that the pace of activity had quickened over the last quarter. Rogers remains as the focus of planned retail development, and clearly Bentonville is the hot spot for office development. The Fayetteville market was noted as being surprisingly strong by a few participants.

Over half of the interviewees mentioned an oversupply, specifically as it relates to the office market in Bentonville. Yet they were evenly divided as to whether the oversupply was minor and temporary in nature. One respondent said simply “We are over-built.” Others felt that it was only a short-term imbalance, with one property manager comparing it to a similar situation which existed four years ago. This respondent expressed the feeling that the market survived the prior excess supply and we will make it through this temporary glut as well.

Participating property managers were pretty much in consensus regarding retail properties. Retail development is still seen as lagging population growth. Retail development has been occurring at a faster pace in Benton County than in Washington County, a trend which is expected to continue. This is due to two factors: the lag between population growth and retail development is greater in Benton County and the center of retail activity in Northwest Arkansas has been shifting northward as the population density shifts northward. Two concerns were raised about future retail development. The first concern is that multiple large-scale development projects have been proposed for the Pinnacle Hills area. Doubt was expressed as to whether all of these would actually come to fruition. The uncertainty of how things will shake out is causing some retailers to delay decisions on executing leases. The second concern relates to so-called strip retail centers. One participant observed that “one of the lessons we have learned is that we cannot keep building massive amounts of inexpensive strip retail centers. The limit has been reached.” Some previously announced strip centers may not be built, and some currently have more vacant space than was anticipated.

A number of panelists commented on the vendor community. All agree that the space needs of vendors have been the driver in the rapid expansion of the office market over the last few years, and they see it as being the key to continued growth. Most respondents have seen no decline in the pace at which vendors have been demanding new spaces. As one respondent said, “Existing vendors typically move to other properties in order to get more, or better, space, yet there always seems to be someone there to fill in behind them.” One of the panelists noted some slow-down in vendor leasing activity, another noted that all of the larger vendors are here already, and the smaller vendors coming in will take smaller spaces than their predecessors. A couple of the respondents pointed out that there could be some significant existing leases coming up for renewal soon, and it will be interesting to see whether they move to newer space or retain their current properties. One participant speculated that there will be some jumping around. Plus, the glut of new space might mean that incentives (e.g. turn-key build-outs and straight 5-year leases with no increases) will be used to lure tenants to the new properties. Yet still another respondent cited a vendor that had announced plans to move their corporate offices here, to be near their largest customer. If other vendors followed suit, there could be significant increase in demand for vendor office space.

Infrastructure issues were again mentioned by most interviewees as being barriers to continued growth. Yet they were about evenly split as to whether the lag in infrastructure development was normal, and not fatal, or whether it would soon put the brakes on growth. A few felt that the day of reckoning was indeed coming, while a few also felt that some progress had been made in minimizing the barriers of inadequate roads, sewer systems and water systems.

Other issues on the minds of respondents included: interest rates, which have been creeping up lately; the escalation in raw land prices, which haven’t been fully priced into either residential or commercial developments yet; and the impact of school funding on the state budget, which may lead to higher taxes.

In summary, these panelists seem to agree on the following:

- The current market is still strong.
- An oversupply exists in two sub-markets: office space in Bentonville and strip retail centers.
- Vendor activity still drives the market.
- Retail and entertainment are still lagging population growth.
- Infrastructure issues are still barriers to growth.

## Local Commercial Property Inventory and Building Permit Data

The following table presents the total competitive commercial property inventory in Northwest Arkansas that meets minimum square footage requirements (a complete list of these criteria are included on page 26) as of December 2004. 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 fourth quarter, the Skyline Report covers more than 48.4 percent of the total competitive commercial property population in Northwest Arkansas. Some cities have better coverage than others. For example, the Skyline Report panelists reported information on 85 percent of the competitive commercial properties in Bella Vista, but only 23 percent of the competitive commercial properties in Siloam Springs. Bentonville, Fayetteville, and Rogers all have coverage of over 50 percent, while Lowell and Springdale have coverage of 41 and 36 percent, respectively.

### Total Square Feet and Coverage of Competitive Commercial Properties

	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	14,752	61,594	182,534	155,803	85%
Bentonville	167,056	2,430,934	493,397	599,389	3,690,776	2,009,734	54%
Fayetteville	662,731	2,412,331	2,915,744	846,215	6,837,021	3,637,185	53%
Lowell	148,819	254,156	74,891	42,500	520,366	211,294	41%
Rogers	652,011	1,573,857	1,418,493	468,180	4,112,541	2,293,146	56%
Siloam Springs	253,631	173,787	286,487	180,797	894,702	206,985	23%
Springdale	551,287	1,934,773	1,396,521	1,383,179	5,265,760	1,885,869	36%
<b>Northwest Arkansas Total</b>	<b>2,435,535</b>	<b>8,886,026</b>	<b>6,600,285</b>	<b>3,581,854</b>	<b>21,503,700</b>	<b>10,400,016</b>	<b>48%</b>

<sup>1</sup>Source: Benton and Washington County offices of the Assessor. The total square feet represent the population of competitive commercial properties that meet the baseline criteria set out on page 26 of this report.

<sup>2</sup>Source: Panel of 68 large Northwest Arkansas commercial property owners and managers.

In addition, building permit data from the past three quarters are presented for six major cities in Northwest Arkansas. Building permit data are seasonal in nature and will show large fluctuations in square footage and value from quarter to quarter. Moreover, any particularly large project can skew the numbers immensely. 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.

From September 2004 to November 2004, there were \$39.2 million in commercial building permits in Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale. This is substantially less than the prior quarter total of \$60.7 million, but more than the March 2004 to May 2004 total of \$35.6 million. Bentonville accounted for over half of the total value of building permits in the September to November period, with Rogers making up an additional quarter.

The table of announcements of New Commercial Property 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.

# Commercial Building Permit Data by City

## September-November 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$20,765,237	\$2,750,867	\$4,126,397	\$9,576,347	\$800,000	\$1,174,999	\$39,193,847
Growth Rate	26.3%	-33.6%	-58.9%	-55.9%	-59.9%	-81.6%	-35.5%
Square Feet	202,359	22,853	--	--	5,039	--	--
Growth Rate	-4.2%	-35.6%	--	--	-80.2%	--	--

## June-August 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$16,446,488	\$4,145,124	\$10,035,248	\$21,734,534	\$1,993,393	\$6,390,478	\$60,745,265
Growth Rate	12.3%	-47.1%	4,827.0%	146.9%	15.8%	169.4%	70.7%
Square Feet	211,258	35,500	--	--	25,446	--	--
Growth Rate	-4.5%	-60.5%	--	--	-69.8%	--	--

## March-May 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$14,640,091	\$7,839,529	\$203,680	\$8,804,700	\$1,721,585	\$2,371,888	\$35,581,473
Square Feet	221,301	89,921	--	--	84,124	--	--

## 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	Fall 2005
Jaynus II	Bentonville	Keating Enterprises	Office	20,000	Spring 2005
Regency Park Business Center	Bentonville	Rose Properties	Office	13,500	Spring 2005
1007 SW "A" Street	Bentonville	Brian Down	Office	14,500	Spring 2005
1301 SE 8th Street	Bentonville	Keating Enterprises	Office	50,000	Spring 2005
Oak Trace, Phase V	Bentonville	Charlton Development	Office	10,360	Fall 2005
Rainbow Curve Professional Center	Bentonville	Dixie Development	Office	37,300	Spring 2005
Brightwood Business Park, Phase II	Bentonville	Charlton Development	Office	24,000	Fall 2005
Rainbow Curve Office Building	Bentonville	Josh Kyles	Office	80,000	March 2005
701-711 "J" Street	Bentonville	Keating Enterprises	Office	35,400	Fall 2005
608 S.E. 3rd Street	Bentonville	Lillich & Bossler	Office	2,400	Spring 2005
Sara Lee Corp.	Bentonville	Sellers Properties	Office	30,000	November 2005
Fountain Plaza	Bentonville	Lane Real Estate	Office/Retail	50,000	Spring 2005
The Bentonville Colonnade	Bentonville	Dixie Development	Retail	38,000	February 2005
Rainbow Curve Retail Center	Bentonville	Dixie Development	Retail	38,000	Summer 2005
Metro Market	Bentonville	Lindsey & Associates	Retail	40,000	April 2005
Metro Market	Bentonville	Sellers Properties	Retail	40,000	April 2005
300 SE F Street	Bentonville	Lillich & Bossler	Warehouse	19,200	Spring 2005
197 E. Main Street	Farmington	Collier Landholdings Inc	Retail	2,700	March 2005
2538 E. Joyce	Fayetteville	M&S Development LLC	Medical	2,973	Summer 2005
Joyce Boulevard	Fayetteville	Lindsey & Associates	Office	68,000	Summer 2006
Signature Plaza	Fayetteville	Millenium Plaza LLC	Office	33,000	February 2005
N. College & Spring Street	Fayetteville	Terminella and Associates	Office	20,000	October 2005
E. Joyce	Fayetteville	M&S Development LLC	Office	20,000+	Fall 2005
Southern View, Phase II	Fayetteville	Southern View Phase II LP	Office/Retail	42,000	Fall 2005
Brandon Mall	Fayetteville	Gary Brandon	Retail	28,000	Fall 2005
5501 Willow Creek Drive	Johnson	Real Sources, Inc.	Medical	40,000	Early 2006
Tower One	Johnson	Orion Realty	Office	60,000	October 2005
2403 Main	Johnson	C&K Properties	Office/Retail	6,600	Spring 2005
Collier Center	Johnson	Collier Landholdings LLC	Office/Retail	10,000	March 2005
Off Main Street	Johnson	C&K Properties	Office/Retail	6,600	Spring 2005
2209 W. Main	Johnson	WWW Johnson South LLC	Office/Whse	85,000	Summer 2005
Southern Hills Business Park	Rogers	Trends LLC	Office	12,000	Spring 2005
Southern Hills	Rogers	Dixie	Office	10,000	Late 2005
The Shoppes at Pinnacle Hills	Rogers	Pinnacle Group	Office/Retail	188,000	Mid 2005
Pinnacle Suites	Rogers	The Pinnacle Group	Office/Retail	108,000	October 2005
Pleasant Crossing	Rogers	Charles Reaves, et al	Retail	1,000,000	December 2005
Walnut & 37th	Rogers	Dixie Development	Retail	21,350	Summer 2005
Pinnacle Promenade	Rogers	The Pinnacle Group	Retail	900,000+	Mid 2006
I-540 & 48th Street	Springdale	USI-Arkansas Inc.	Office	10,000	January 2005
Electric Avenue	Springdale	Basic Construction	Retail	16,000	Summer 2005
Medical Associates of NWA	Tontitown	Medical Associates of Northwest Arkansas	Medical	6,100	Summer 2005

# Vacancy Rates by Submarket

## Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	33.7%	39.3%	28.80%	100.0%	19.6%	100.0%	21.4%	31.7%
Q3 2004	19.6%	38.1%	25.6%	11.7%	22.8%	100.0%	26.5%	28.4%
Q4 2004	50.0%	31.0%	26.4%	3.6%	16.5%	48.4%	7.8%	24.5%

## Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	4.5%	36.7%	8.8%	8.8%	100.0%	--	40.6%	26.5%
Q3 2004	3.1%	34.5%	9.1%	8.8%	17.3%	--	17.9%	19.7%
Q4 2004	8.3%	29.1%	10.9%	16.7%	17.3%	--	15.3%	16.8%

## Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	100.0%	--	--	100.0%	--	34.0%	55.5%
Q3 2004	--	84.8%	0.0%	--	100.0%	36.3%	100.0%	94.8%
Q4 2004	--	100.0%	0.0%	--	0.0%	70.8%	50.0%	27.4%

## Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	69.7%	8.3%	--	19.5%	36.3%	9.5%	15.4%
Q3 2004	1.2%	38.7%	6.4%	0.0%	23.8%	--	12.0%	12.0%
Q4 2004	3.1%	30.4%	7.2%	0.0%	21.9%	100.0%	8.5%	11.8%

## Retail/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	--	66.3%	--	100.0%	--	10.5%	21.8%
Q4 2004	--	--	66.3%	--	100.0%	--	21.0%	31.8%

## Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	100.0%	6.7%	--	21.0%	43.1%	77.3%	24.7%
Q3 2004	--	80.3%	8.4%	100.0%	62.8%	0.0%	55.3%	52.1%
Q4 2004	--	56.3%	4.8%	47.4%	53.5%	0.0%	74.8%	33.5%

# Net Absorption by Submarket

## Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	-2,250	-17,740	22,299	0	-8,112	0	-21,571	-25,124
Q4 2004	0	1,530	-4,280	9,591	2,439	0	21,902	31,182

## Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	0	5,000	1,000	0	0	--	-7,500	-1,500
Q4 2004	-5,643	5,544	-11,815	-3,200	4,380	--	3,611	-1,480

## Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0		0	--	-7,800	-7,800
Q4 2004	--	0	0		21,000	-38,000	-31,000	-48,000

## Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	4,900	-10,208	10,666	0	0	--	67,964	68,422
Q4 2004	0	1,527	-33,598	0	-11,505	-39,240	26,992	-55,824

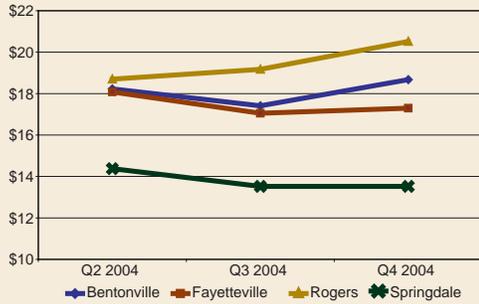
## Retail/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0		0	--	5,000	5,000
Q4 2004	--	--	0		0	--	-11,000	-11,000

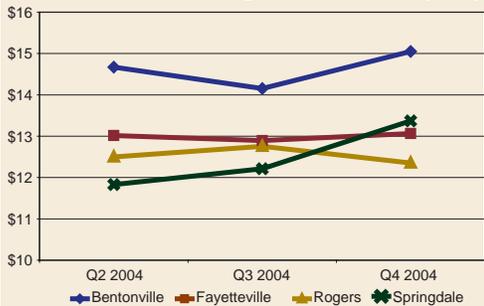
## Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0	0	0		0	0
Q4 2004	--	34,643	0	400	43,000	0	2,575	80,618

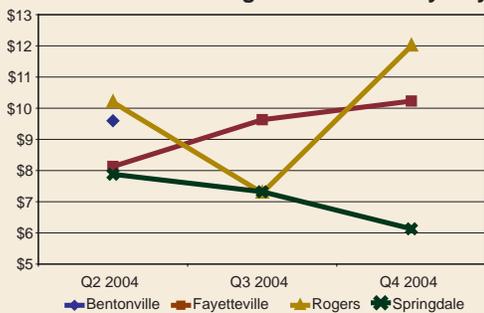
**Class A Office Average Lease Rates by City**



**Class B Office Average Lease Rates by City**



**Class C Office Average Lease Rates by City**



## Office Lease Rates

**Average Range by City**

	Class A	Class B	Class C	Medical
Bentonville	\$18.67	\$14.62-\$15.48	--	\$12.85-\$15.35
Fayetteville	\$15.33-\$19.27	\$12.00-\$14.13	\$10.23	\$16.50
Rogers	\$19.82-\$21.21	\$12.20-\$12.50	\$11.75-\$12.25	--
Springdale	\$10.30-\$16.75	\$13.37	\$6.13	\$10.00

## Office

In the fourth quarter of 2004, the office properties included in the CBER panel had a vacancy rate of 23.3 percent, down from 29.1 percent in the third quarter. Of the 3.2 million square feet of Northwest Arkansas properties examined, 747,319 square feet are currently available. From the third quarter of 2004 to the fourth quarter of 2004, 66,682 square feet of office space were absorbed, while an additional 59,000 square feet came online in the market. At this rate of absorption, it will take 32.4 months for the currently available inventory to become completely occupied.

Of the 747,318 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 most recent rate of absorption, Bentonville has 83.3 months or almost 7 years of inventory available. However, Bentonville Plaza accounts for about 61.7 percent of the unoccupied space. When that development is removed from the calculation, Bentonville has 11.4 months of office inventory.

In the office market in Rogers, there was positive absorption of 2,439 square feet in the fourth quarter of 2004. The bulk of the absorption occurred in Class C office space, while Class B office space experienced zero absorption and the addition of 9,500 available square feet in the fourth quarter. Class

A space in Rogers saw a very small absorption of 292 square feet. At the fourth quarter rate of absorption, Rogers has 17.5 months of inventory in the office market.

Fayetteville had 176,244 square feet of available office space in the fourth quarter of 2004. About 5 percent of the space is Class C, with the remainder fairly evenly split between Class A and Class B space. From the third to the fourth quarter, there was positive absorption of 4,280 square feet in the Class A market, negative absorption of 13,008 square feet in the Class B market, and no absorption in the Class C market.

Springdale had the most positive results in the office market in the third quarter. A total of 21,902 square feet of Class A and Class B space was absorbed from September through November. There were only 18,101 square feet of available office space in the fourth quarter of 2004 in Springdale, implying a 7.8 percent vacancy rate.

Office lease rates continue to be highest, on average, for Class A office space in Rogers, average from \$19.82 to \$21.21 per square foot. Class A space in both Bentonville and Fayetteville can approach the lower end of this range, but Class A space in Springdale continues to be significantly less expensive per square foot. Class B office space is most expensive in Bentonville and least expensive on average in Rogers. In the fourth quarter, Rogers had the most expensive Class C office space.

## 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 Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	281,495	237,528	84.4%	1,843	0	1,843	43.0
Fayetteville	119,031	82,210	69.1%	8,728	0	8,728	3.1
Rogers	555,871	68,294	12.3%	292	0	292	78.0
Springdale	--	--	--	--	--	--	--
Class B Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	937,102	144,908	15.5%	25,687	26,000	-313	--
Fayetteville	514,724	85,002	16.5%	-13,008	0	-13,008	--
Rogers	269,966	46,416	17.2%	0	9,500	-9,500	--
Springdale	80,997	25,800	31.9%	7,386	0	7,386	1.2
Class C Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	14,075	13,500	95.5%	--	--	--	--
Fayetteville	32,710	9,032	27.6%	0	0	0	--
Rogers	34,255	13,520	39.5%	11,647	0	11,647	0.4
Springdale	157,213	10,584	6.7%	-3,775	0	-3,775	--
Medical Office							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	3,021	1,721	57.0%	1,300	0	1,300	0.4
Fayetteville	15,161	9,377	61.8%	-227	0	-227	--
Rogers	9,088	0	0.0%	0	0	0	--
Springdale	200,200	100,000	50.0%	69,000	100,000	-31,000	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents



## Office/Retail Lease Rates

### Average Range by City

	Class A	Class B	Class C
Bentonville	--	\$9.81-\$12.24	--
Fayetteville	--	\$13.38	\$6.44-\$13.18
Rogers	--	\$13.15	\$9.00-\$12.00
Springdale	--	\$10.11-\$18.23	\$7.40-\$11.80

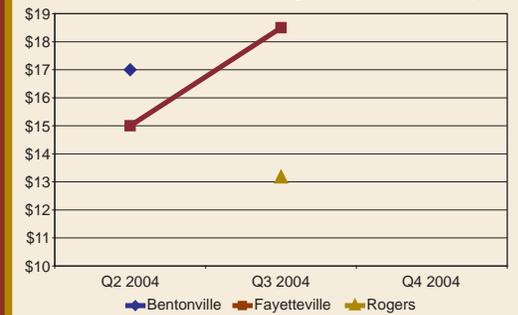
## Office/Retail

In the fourth quarter of 2004, the office/retail properties included in the CBER sample had a vacancy rate of 16.8 percent, down from 18.2 percent in the third quarter. Of the 897,460 square feet of Northwest Arkansas properties examined, 150,497 square feet were available. From the third quarter of 2004 to the fourth quarter of 2004, 6,235 square feet of office/retail space were absorbed, while an additional 4,515 square feet came on the market, yielding a net absorption of 1,720 square feet for the quarter. At this rate of absorption, it will take 29.2 months for the currently available inventory to become occupied.

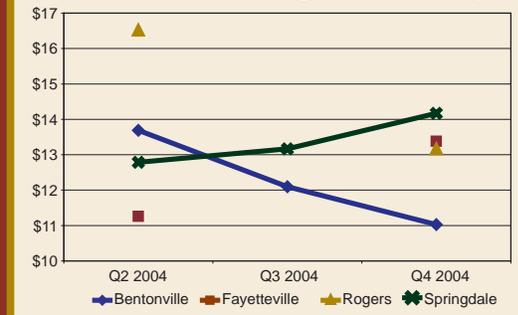
All 4,515 square feet of new space came online in the Fayetteville market. Combined with the 500 square feet of negative absorption, Fayetteville netted 5,015 square feet of negative absorption in the office/retail submarket in the fourth quarter. Positive net absorption occurred in Bentonville Class B office/retail space, Springdale Class B office/retail space, and Rogers Class C office/retail space, while there was negative net absorption in Fayetteville Class B and Class C office/retail space and in Springdale Class C office/retail space.

Bentonville had the largest amount of available office/retail space in the fourth quarter, along with a vacancy rate of 29.1 percent for all classes of space. Only 14,400 square feet of office/retail space were available in Rogers, netting a vacancy rate of 17.3 percent.

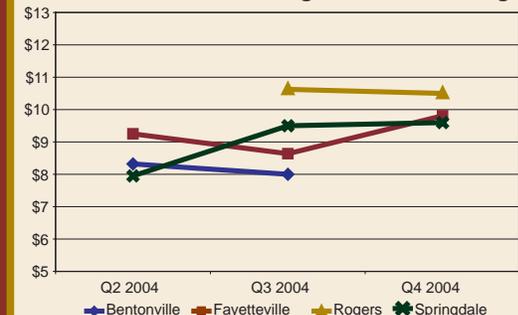
Class A Office/Retail Average Lease Rates by City



Class B Office/Retail Average Lease Rates by City



Class C Office/Retail Average Lease Rate Ranges



# Office/Retail Space Characteristics by Class and City

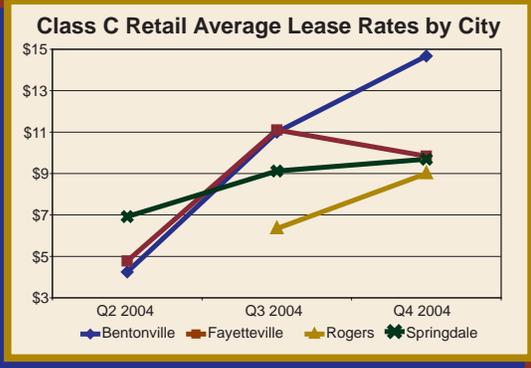
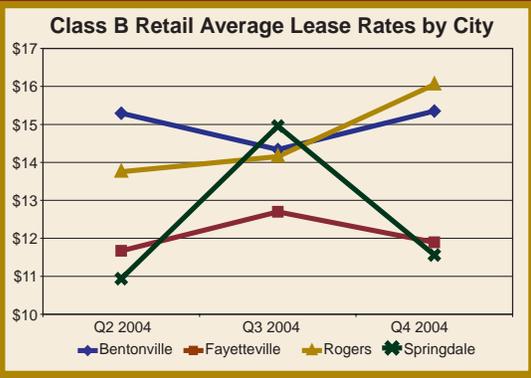
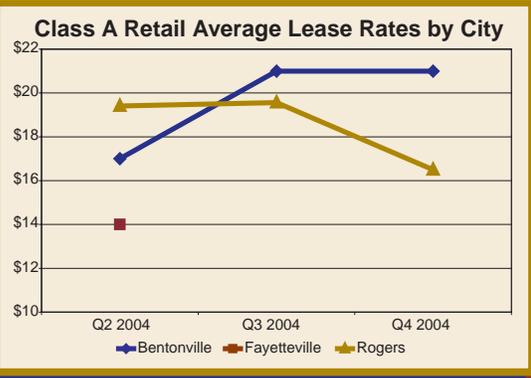
Class A Office/Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	--	--	--	--	--	--	--
Fayetteville	--	--	--	--	--	--	--
Rogers	--	--	--	--	--	--	--
Springdale	--	--	--	--	--	--	--
Class B Office/Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	157,964	59,098	37.4%	5,544	0	5,544	3.6
Fayetteville	306,599	14,815	4.8%	-500	4,515	-5,015	--
Rogers	58,000	14,400	24.8%		0		--
Springdale	80,997	25,800	31.9%	7,386	0	7,386	1.2
Class C Office/Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	45,084	0	0.0%	0	0	0	--
Fayetteville	66,603	25,800	38.7%	-6,800	0	-6,800	--
Rogers	25,000	0	0.0%	4,380	0	4,380	--
Springdale	157,213	10,584	6.7%	-3,775	0	-3,775	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents



## Retail Lease Rates



### Average Range by City

	Class A	Class B	Class C
Bentonville	\$21.00	\$15.30-\$15.40	\$14.67
Fayetteville	--	\$10.68-\$13.11	\$9.84
Rogers	\$16.50	\$15.30-\$16.80	\$9.00
Springdale	--	\$9.70-\$13.42	\$9.69

## Retail

In the fourth quarter of 2004, the retail properties included in the CBER panel had a vacancy rate of 11.8 percent, which was about the same as the retail vacancy rate in the third quarter. Of the 3.0 million square feet of Northwest Arkansas retail properties examined, 356,725 square feet are currently available. From the third quarter of 2004 to the fourth quarter of 2004, there was a negative absorption of 33,819 square feet of retail space, while an additional 22,005 square feet of retail space came online in the market. This yielded a negative net absorption of 55,824 square feet in the fourth quarter in the retail submarket of Northwest Arkansas.

Bentonville had 54,638 square feet of total retail space available in the fourth quarter, resulting in a vacancy rate of 30.4 percent. This represented a decline from the rate of 38.7 percent in the third quarter of 2004. The positive absorption that took place in the Class A retail properties in Bentonville just offset the negative absorption that occurred in the Class B retail properties. Class C retail properties had 1,500 square feet of net absorption.

In the fourth quarter of 2004, Fayetteville had a vacancy rate of 7.2 percent, up from 6.4 percent in the third quarter, with 114,403 available square feet. There was no Class A retail absorption reported and 26,829 square feet of Class B retail space were vacated during the quarter. New retail square footage totaling 6,355 became available in Class C retail space in Fayetteville during the fourth quarter of 2004.

The Rogers market had 130,337 square feet of total retail space available in the fourth quarter with a vacancy rate of 21.9 percent. This rate was a decline from 23.8 percent in the third quarter. There was no absorption in the Class A and Class B submarkets and an additional 15,650 square feet of retail space was added to the Class B submarket. All of the positive absorption of retail space in Rogers occurred in the Class C submarket during the fourth quarter.

The retail submarket in Springdale had the largest absorption of space in the fourth quarter of 2004. A total of 26,992 square feet were absorbed in the Class B and Class C submarkets, with the bulk coming from the Class B market. Springdale had only 57,347 available square feet with a vacancy rate of 8.5 percent in the fourth quarter of 2004.

No clear patterns emerged from the lease rate data for the fourth quarter in Northwest Arkansas. In Fayetteville, there was a decline in lease rates for both Class B and Class C spaces, while in Rogers and Bentonville, there were increases for Class B and Class C. For Class A space, prices held constant in Bentonville and declined in Rogers. Springdale had mixed results with a decline in average Class B prices and an increase in average Class A prices.



## 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 Q3 to Q4 <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	5,200	25.8%	4,800	0	4,800	0.4
Fayetteville	822,703	17,021	2.1%	0	0	0	–
Rogers	106,453	9,483	8.9%	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 Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	135,511	44,938	33.2%	-4,773	0	-4,773	–
Fayetteville	715,368	82,247	11.5%	-26,829	0	-26,829	–
Rogers	432,102	112,770	26.1%	0	15,650	-15,650	–
Springdale	524,504	46,462	8.9%	24,092	0	24,092	0.6
Class C Retail							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	23,960	4,500	18.8%	1,500	0	1,500	1.0
Fayetteville	48,054	15,135	31.5%	-414	6,355	-6,769	–
Rogers	55,305	8,084	14.6%	4,145	0	4,145	0.7
Springdale	147,997	10,885	7.4%	2,900	0	2,900	1.3

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents



## Other Lease Rates

Average Range by City			
	Warehouse	Office/Warehouse	Retail/Warehouse
Bentonville	\$5.97-\$7.65	\$6.37-\$9.56	--
Fayetteville	\$3.00	--	\$5.08
Rogers	\$4.05	--	\$4.80
Springdale	\$3.95-\$4.61	--	\$4.00-\$12.50

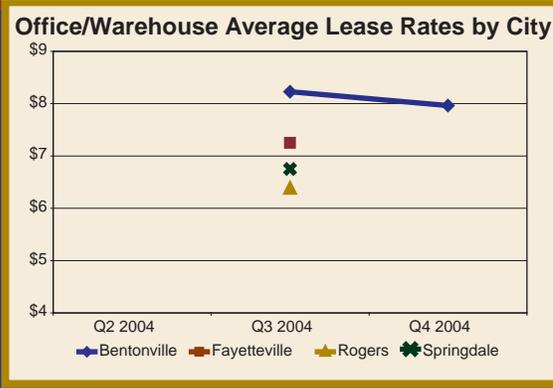
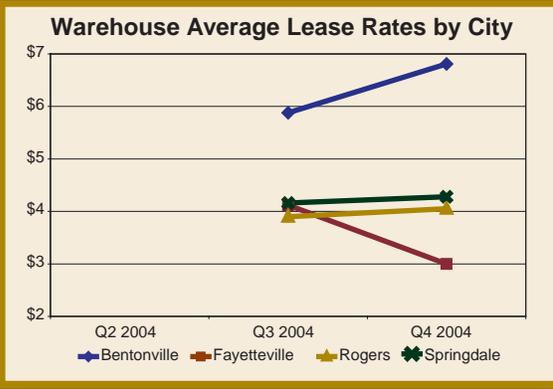
## Warehouse

In the fourth quarter of 2004, the warehouse properties included in the CBER panel had a vacancy rate of 33.5 percent. This was a decline from the third quarter vacancy rate of 50.7 percent. Of the 2.0 million square feet of warehouse space examined, 683,141 square feet were available in the fourth quarter. There were 80,209 square feet of warehouse space absorbed in the fourth quarter and no additional square feet of space came online in the market.

Available warehouse space is fairly evenly distributed through Bentonville, Rogers, and Springdale, while Fayetteville has significantly less available warehouse space. Vacancy rates declined from the third to the fourth quarter in every city except Springdale. Bentonville continued to have the most expensive average warehouse lease rates. On average, lease rates stayed pretty constant in Rogers and Springdale, while they increased in Bentonville and declined in Fayetteville.

## Office/Warehouse

The CBER panelists reported on 487,800 square feet of office/warehouse space in the fourth quarter. This represents a 71.5 percent increase in the response rate for this category of space over the third quarter total. The vacancy rate in the office/warehouse submarket declined to 27.4 percent in Northwest Arkansas, with 133,600 total square feet available in the fourth quarter.



## 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 Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	360,775	203,000	56.3%	34,634	0	34,634	2.0
Fayetteville	996,493	47,600	4.8%	0	0	0	--
Rogers	364,469	194,926	53.5%	43,000	0	43,000	1.5
Springdale	317,794	237,615	74.8%	2,575	0	2,575	30.8
Office/Warehouse							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1,2</sup>	Months of Inventory <sup>1,2</sup>
Bentonville	33,600	33,600	100.0%	0	0	0	--
Fayetteville	6,000	0	0.0%	0	0	0	--
Rogers	248,000	0	0.0%	21,000	0	21,000	0.0
Springdale	200,200	100,000	50.0%	69,000	100,000	-31,000	--
Retail/Warehouse							
	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <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	66.3%	0	0	0	--
Rogers	12,000	12,000	100.0%	--	--	--	--
Springdale	104,548	22,000	21.0%	-11,000	0	-11,000	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

From the third to the fourth quarter of 2004, 90,000 square feet of office/warehouse space were absorbed while an additional 100,000 square feet of space came online, netting a negative absorption of 10,000 square feet of space.

All 100,000 square feet of new space was in the Springdale submarket. A total of 69,000 square feet were absorbed in Springdale in the quarter with the remainder being absorbed in Rogers. In the third quarter, office/warehouse space was only available in the Bentonville and Springdale submarkets.

Lease rates were only reported for Bentonville properties for the fourth quarter and there was a slight decline in the average lease rate from the third quarter.

### Retail/Warehouse

In the fourth quarter of 2004, the retail/warehouse properties included in the CBER panel had a vacancy rate of 31.8 percent. This was an increase from the third quarter retail/warehouse vacancy rate of 21.8 percent. Of the reported 125,448 square feet, 39,900 were available in the fourth quarter. While no additional retail/warehouse square footage came online in the fourth quarter, there was negative absorption of 11,000 square feet in the Northwest Arkansas market.

All of the negative absorption occurred in Springdale. No absorption was reported in Fayetteville in the fourth quarter. In Bentonville, there was no reported retail/warehouse space and in Rogers, the retail/warehouse space was reported to have no vacancy in the fourth quarter. Average lease rates for retail/warehouse space remained constant in Fayetteville and Rogers and increased in the Springdale submarket in the fourth quarter.

## Bella Vista

- Bella Vista had 182,534 square feet of competitive commercial space in the fourth quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 155,803 square feet of commercial space in the fourth quarter of 2004. This represents 85 percent of the total competitive commercial space in Bella Vista and is an increase of 2.8 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Bella Vista experienced negative net absorption in the office/retail submarket and no net absorption in the office and retail markets.
- Vacancy rates increased in the office, office/retail, and retail submarkets in Bella Vista from the third quarter to the fourth quarter of 2004.
- Average office lease rates declined for office space in Bella Vista and increased for office/retail and retail space in the fourth quarter.



## Bella Vista Commercial Real Estate Market Summary Statistics

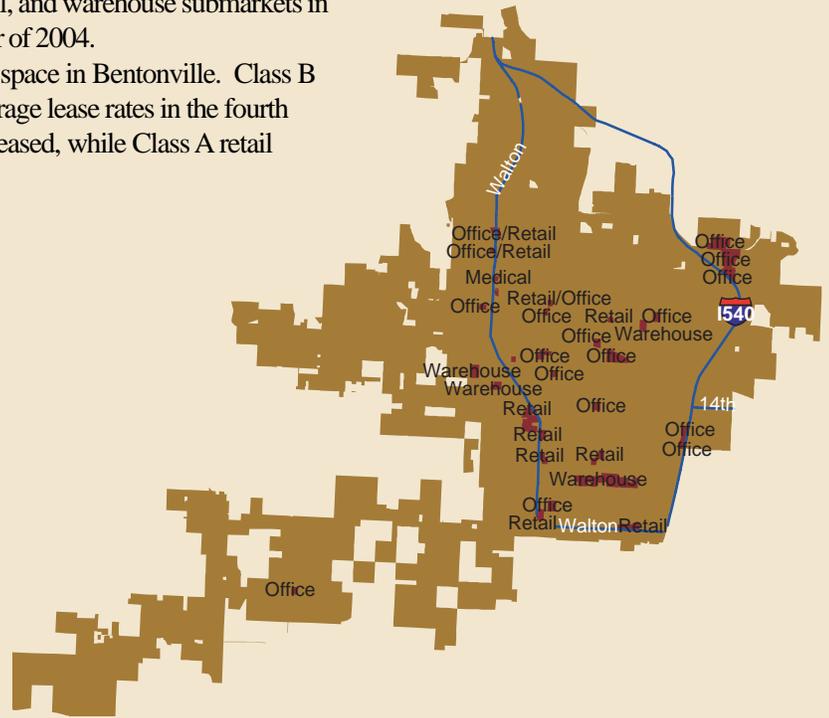
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	--	--	--	--	--	--	--
Office	\$9.28	1,100	550	50.0%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Office/Retail	\$9.34	76,171	6,343	8.3%	-5,643	0	-5,643	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Medical	--	--	--	--	--	--	--	--
Office/Warehouse	--	--	--	--	--	--	--	--
Retail	\$3.48	78,532	2,400	3.1%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	--	--	--	--	--	--	--	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

# Bentonville

- Bentonville had 3,690,776 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Bentonville issued building permits for 202,359 square feet of new commercial space, valued at a total of \$20,765,237. This represents an increase in value, but a decrease in square footage over the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 2,009,734 square feet of commercial space in the fourth quarter of 2004. This represents 54 percent of the total competitive commercial space in Bentonville and is an increase of 4.3 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Bentonville experienced positive net absorption in the office, office/retail, retail, and warehouse submarkets. These numbers account for the addition of 26,000 square feet of office space during the fourth quarter.
- Vacancy rates declined in the office, office/retail, retail, and warehouse submarkets in Bentonville from the third quarter to the fourth quarter of 2004.
- Average lease rates increased for all classes of office space in Bentonville. Class B office/retail space experienced a dollar decline in average lease rates in the fourth quarter. Class B and C retail average lease rates increased, while Class A retail lease rates were steady.



## Bentonville Commercial Real Estate Market Summary Statistics

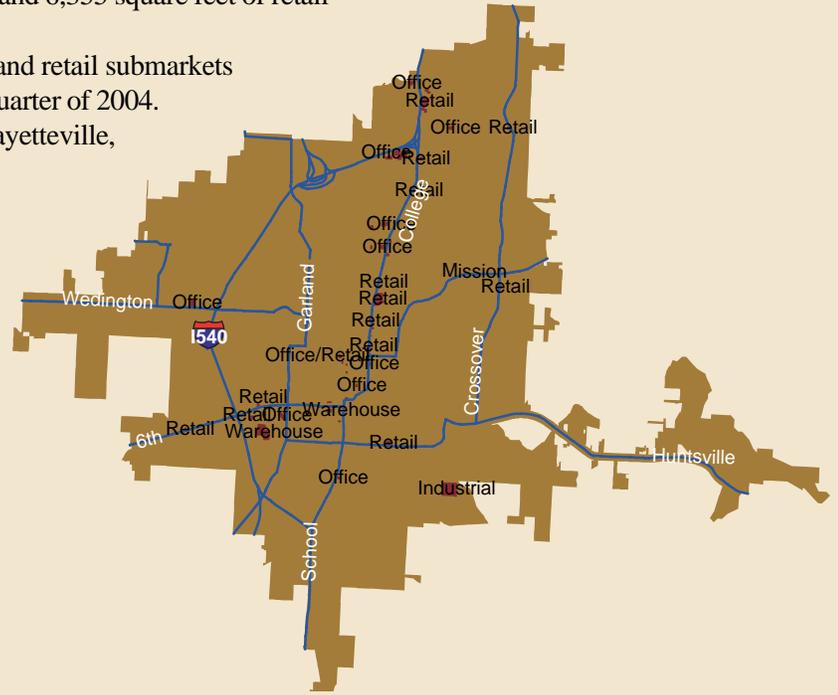
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	--	--	--	--	--	--	--
Office	\$15.30-\$16.01	1,232,672	382,436	31.0%	27,530	26,000	1,530	83.3
Class A	\$18.67	281,495	237,528	84.4%	1,843	0	1,843	43.0
Class B	\$14.62-\$15.48	937,102	144,908	15.5%	25,687	26,000	-313	--
Class C	--	14,075	13,500	95.9%	--	--	--	--
Medical	\$12.85-\$15.35	3,021	1,721	57.0%	1,300	0	1,300	0.4
Office/Retail	\$9.81-\$12.24	203,048	59,098	29.1%	5,544	0	5,544	3.6
Class A	--	--	--	--	--	--	--	--
Class B	\$9.81-\$12.24	157,964	59,098	37.4%	5,544	0	5,544	3.6
Class C	--	45,084	0	0.0%	0	0	0	--
Office/Warehouse	\$6.37-\$9.56	33,600	33,600	100.0%	0	0	0	--
Retail	\$16.02-\$16.10	179,639	54,638	30.4%	1,527	0	1,527	11.9
Class A	\$21.00	20,168	5,200	25.8%	4,800	0	4,800	0.4
Class B	\$15.30-\$15.40	135,511	44,938	33.2%	-4,773	0	-4,773	-3.1
Class C	\$14.67	23,960	4,500	18.8%	1,500	0	1,500	1.0
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	\$5.97-\$7.65	360,775	203,000	56.3%	34,634	0	34,634	2.0

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

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

# Fayetteville

- Fayetteville had 6,837,021 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Fayetteville issued building permits for 22,853 square feet of new commercial space, valued at a total of \$2,750,867. This represents a decrease in value and square footage from the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 3,637,185 square feet of commercial space in the fourth quarter of 2004. This represents 53 percent of the total competitive commercial space in Fayetteville and is an increase of 17.4 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Fayetteville experienced negative net absorption in the office, office/retail, and retail submarkets. There was no net absorption in the office/warehouse, retail/warehouse, or warehouse submarkets. These numbers account for the addition of 4,515 square feet of office/retail and 6,355 square feet of retail space during the fourth quarter.
- Vacancy rates increased in the office, office/retail, and retail submarkets in Fayetteville from the third quarter to the fourth quarter of 2004.
- Average lease rates increased for office space in Fayetteville, while average lease rates declined for retail and warehouse space from the third quarter of 2004 to the fourth quarter of 2004.



## Fayetteville Commercial Real Estate Market Summary Statistics

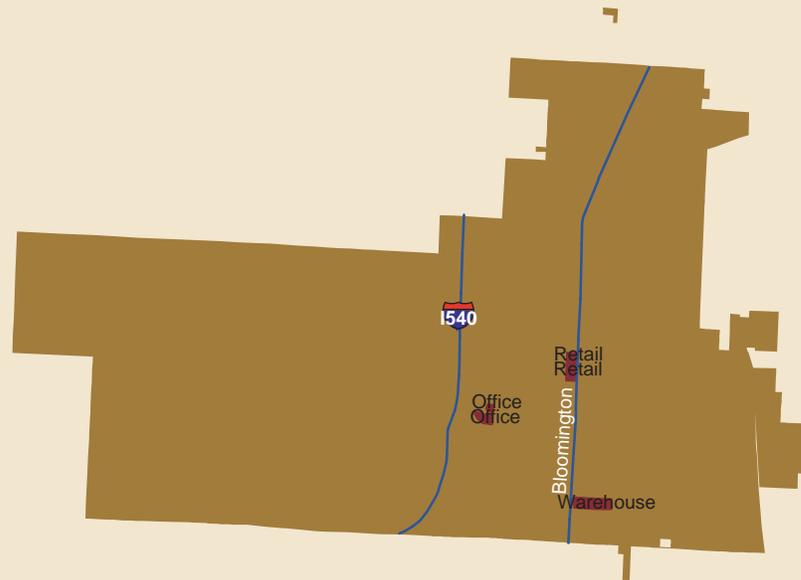
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	--	--	--	--	--	--	--
Office	\$12.20-\$14.30	666,465	176,244	26.4%	-4,280	0	-4,280	--
Class A	\$15.33-\$19.27	119,031	82,210	69.1%	8,728	0	8,728	3.1
Class B	\$12.00-\$14.13	514,724	85,002	16.5%	-13,008	0	-13,008	--
Class C	\$10.23	32,710	9,032	27.6%	0	0	0	--
Medical	\$16.50	15,161	9,377	61.8%	-227	0	-227	--
Office/Retail	\$11.06-\$13.31	373,202	40,615	10.9%	-7,300	4,515	-11,815	--
Class A	--	--	--	--	--	--	--	--
Class B	\$13.38	306,599	14,815	4.8%	-500	4,515	-5,015	--
Class C	\$6.44-\$13.18	66,603	25,800	38.7%	-6,800	0	-6,800	--
Office/Warehouse	--	6,000	0	0.0%	0	0	0	--
Retail	\$10.29-\$11.60	1,586,125	114,403	7.2%	-27,243	6,355	-33,598	--
Class A	--	822,703	17,021	2.1%	0	0	0	--
Class B	\$10.68-\$13.11	715,368	82,247	11.5%	-26,829	0	-26,829	--
Class C	\$9.84	48,054	15,135	31.5%	-414	6,355	-6,769	--
Retail/Warehouse	\$5.08	8,900	5,900	66.3%	0	0	0	--
Warehouse	\$3.00	996,493	47,600	4.8%	0	0	0	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

## Lowell

- Lowell had 520,366 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Lowell issued building permits for new commercial space, valued at a total of \$4,126,397. This represents a decrease in value from the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 211,294 square feet of commercial space in the fourth quarter of 2004. This represents 41 percent of the total competitive commercial space in Lowell and is an increase of 10.2 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Lowell experienced positive net absorption in the office and warehouse submarkets, negative net absorption in the office/retail submarket, and no net absorption in the warehouse submarket. There was no reported new commercial space in the fourth quarter of 2004 in Lowell.
- Vacancy rates declined in the office and warehouse submarkets, were flat in the retail submarket, and increased in the office/retail submarket in Lowell from the third quarter to the fourth quarter of 2004.
- Average lease rates increased for office space in Lowell in the fourth quarter, while the range of average lease rates for office/retail space widened.



## Lowell Commercial Real Estate Market Summary Statistics

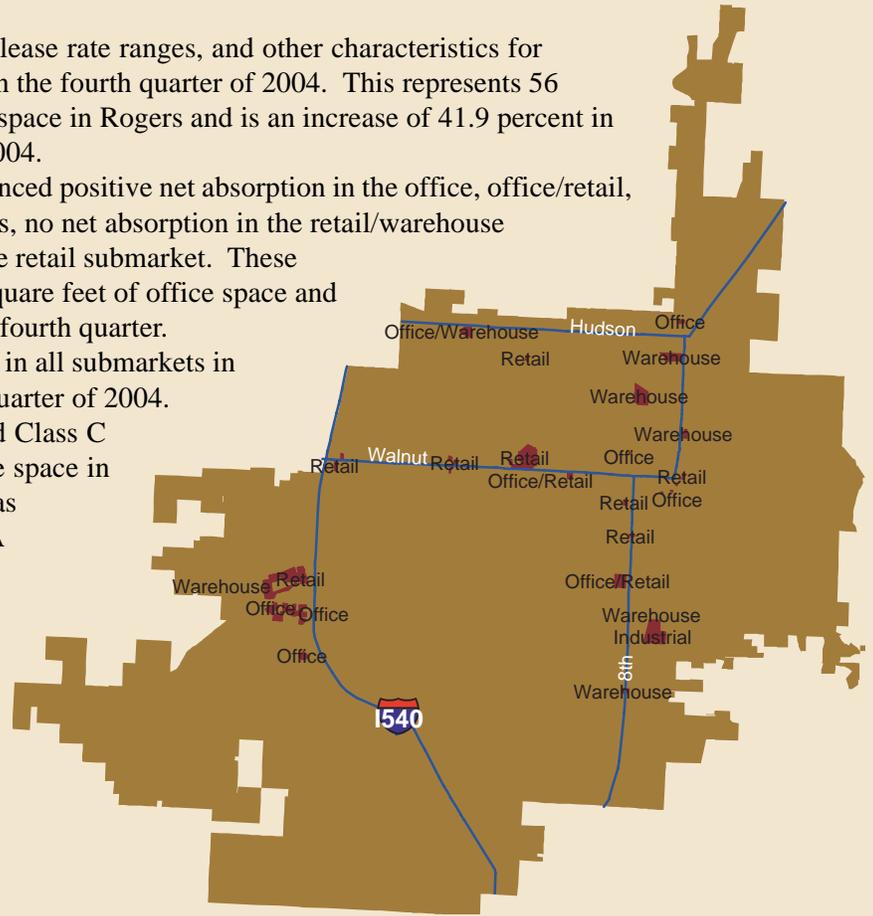
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	--	--	--	--	--	--	--
Office	\$16.86	118,079	4,206	3.6%	9,591	0	9,591	0.1
Class A	--	--	--	--	--	--	--	--
Class B	\$18.50	111,552	856	0.8%	9,591	0	9,591	0.0
Class C	\$15.21	6,527	3,350	51.3%	0	0	0	--
Medical	--	--	--	--	--	--	--	--
Office/Retail	\$8.00-\$12.00	19,200	3,200	16.7%	-3,200	0	-3,200	--
Class A	--	--	--	--	--	--	--	--
Class B	\$8.00-\$12.00	19,200	3,200	16.7%	-3,200	0	-3,200	--
Class C	--	--	--	--	--	--	--	--
Office/Warehouse	--	--	--	--	--	--	--	--
Retail	--	36,015	0	0.0%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	36,015	0	0.0%	0	0	0	--
Class C	--	--	--	--	--	--	--	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	\$3.75	38,000	18,000	47.4%	400	0	400	15.0

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

# Rogers

- Rogers had 4,112,541 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Rogers issued building permits new commercial space valued at a total of \$9,576,347. This represents a decline in value from the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 2,293,146 square feet of commercial space in the fourth quarter of 2004. This represents 56 percent of the total competitive commercial space in Rogers and is an increase of 41.9 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Rogers experienced positive net absorption in the office, office/retail, office/warehouse, and warehouse submarkets, no net absorption in the retail/warehouse submarket, and negative net absorption in the retail submarket. These numbers account for the addition of 9,500 square feet of office space and 15,650 square feet of retail space during the fourth quarter.
- Vacancy rates declined or remained constant in all submarkets in Rogers from the third quarter to the fourth quarter of 2004.
- Average lease rates declined for Class B and Class C office space and increased for Class A office space in Rogers in the fourth quarter. The pattern was just the opposite for retail space with Class A rates declining and Class B and C rates increasing.



## Rogers Commercial Real Estate Market Summary Statistics

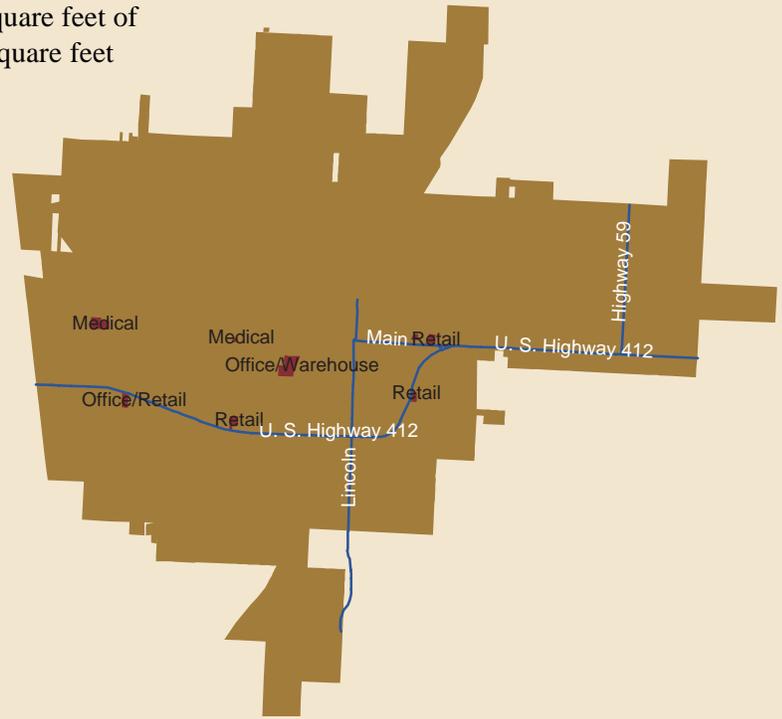
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	131,725	0	0.0%	0	0	0	--
Office	\$16.22-\$16.77	860,092	128,230	14.9%	11,939	9,500	2,439	17.5
Class A	\$19.82-\$21.21	555,871	68,294	12.3%	292	0	292	78.0
Class B	\$12.20-\$12.50	269,966	46,416	17.2%	0	9,500	-9,500	--
Class C	\$11.75-\$12.25	34,255	13,520	39.5%	11,647	0	11,647	0.4
Medical	--	9,088	0	0.0%	0	0	0	--
Office/Retail	\$11.08-\$12.58	83,000	14,400	17.3%	4,380	0	4,380	1.1
Class A	--	--	--	--	--	--	--	--
Class B	\$13.15	58,000	14,400	24.8%	0	0	0	--
Class C	\$9.00-\$12.00	25,000	0	0.0%	4,380	0	4,380	--
Office/Warehouse	--	248,000	0	0.0%	21,000	0	21,000	0.0
Retail	\$14.03-\$15.03	593,860	130,337	21.9%	4,145	15,650	-11,505	--
Class A	\$16.50	106,453	9,483	8.9%	0	0	0	--
Class B	\$15.30-\$16.80	432,102	112,770	26.1%	0	15,650	-15,650	--
Class C	\$9.00	55,305	8,084	14.6%	4,145	0	4,145	0.7
Retail/Warehouse	\$4.80	12,000	12,000	100.0%	0	0	0	--
Warehouse	\$4.05	364,469	194,926	53.5%	43,000	0	43,000	1.5

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

## Siloam Springs

- Siloam Springs had 894,702 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Siloam Springs issued building permits for 5,039 square feet of new commercial space, valued at a total of \$800,000. This represents a decline in value and in square footage from the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 206,985 square feet of commercial space in the fourth quarter of 2004. This represents 23 percent of the total competitive commercial space in Siloam Springs and is an increase of 117.6 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Siloam Springs experienced negative net absorption in the retail and office/warehouse submarkets and no net absorption in the office and warehouse submarkets. These numbers account for the addition of 38,000 square feet of office/warehouse space and the addition of 39,240 square feet of retail space during the fourth quarter.
- Vacancy rates declined in the office submarket and increased in the office/warehouse submarket in Siloam Springs from the third quarter to the fourth quarter of 2004.



## Siloam Springs Commercial Real Estate Market Summary Statistics

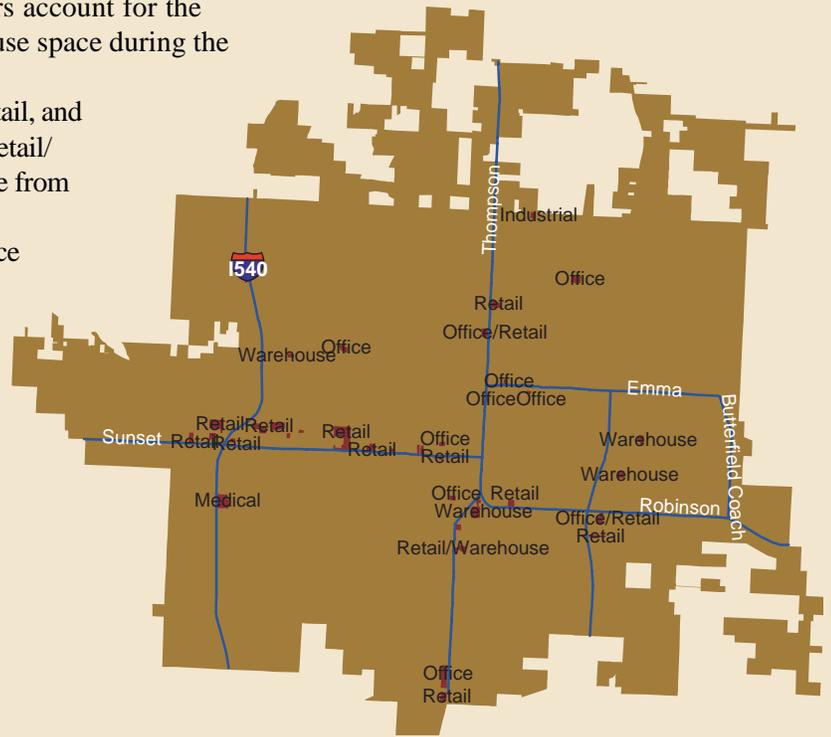
	Average Lease Rate Range	Total Square Feet <sup>1</sup>	Available Square Feet <sup>1</sup>	Percent Available <sup>1</sup>	Absorption from Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	--	--	--	--	--	--	--	--
Office	\$8.00-\$10.00	29,063	14,052	48.4%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	\$8.00-\$10.00	29,063	14,052	48.4%	0	0	0	--
Class C	--	--	--	--	--	--	--	--
Medical	\$8.00-\$10.00	16,811	1,800	10.7%	0	0	0	--
Office/Retail	--	--	--	--	--	--	--	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Office/Warehouse	\$2.76-\$3.24	53,702	38,000	70.8%		38,000	-38,000	--
Retail	--	46,540	46,540	100.0%	0	39,240	-39,240	--
Class A	--	--	--	--	--	--	--	--
Class B	--	46,540	46,540	100.0%	0	39,240	-39,240	--
Class C	--	--	--	--	--	--	--	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	--	35,000	0	0.0%	0		0	--

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

# Springdale

- Springdale had 5,265,760 square feet of competitive commercial space in the fourth quarter of 2004.
- From September to November 2004, Springdale issued building permits for valued at a total of \$1,174,999. This represents a decline in value from the building permits issued from August to October 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 1,885,869 square feet of commercial space in the fourth quarter of 2004. This represents 36 percent of the total competitive commercial space in Springdale and is an increase of 18.8 percent in the reporting rate from the third quarter of 2004.
- In the fourth quarter of 2004, Springdale experienced positive net absorption in the office, office/retail, retail, and warehouse submarkets and negative net absorption in the office/warehouse and retail/warehouse submarkets. These numbers account for the addition of 100,000 square feet of office/warehouse space during the fourth quarter.
- Vacancy rates declined in the office, office/retail, retail, and office/warehouse submarkets and increased in the retail/warehouse and warehouse submarkets in Springdale from the third quarter to the fourth quarter of 2004.
- Average lease rates increased for all classes of office space in Springdale. Class B office/retail space experienced a dollar decline in average lease rates in the fourth quarter. Class B and C retail average lease rates increased, while Class A retail lease rates were steady.



## 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 Q3 to Q4 <sup>2</sup>	New Available Square Feet <sup>1</sup>	Net Absorption <sup>1, 2</sup>	Months of Inventory <sup>1, 2</sup>
Industrial	–	121,158	0	0.0%	8,550	0	8,550	0.0
Office	\$10.75-\$11.56	231,458	18,101	7.8%	21,902	0	21,902	0.3
Class A	\$10.30-\$16.75	78,971	0	0.0%	16,000	0	16,000	0.0
Class B	\$13.37	116,240	12,001	10.3%	5,902	0	5,902	0.7
Class C	\$6.13	17,356	3,400	19.6%	0	0	0	–
Medical	\$10.00	18,891	2,700	14.3%	0	0	0	–
Office/Retail	\$8.42-\$14.21	238,210	36,384	15.3%	3,611	0	3,611	3.4
Class A	–	–	–	–	–	–	–	–
Class B	\$10.11-\$18.23	80,997	25,800	31.9%	7,386	0	7,386	1.2
Class C	\$7.40-\$11.80	157,213	10,584	6.7%	-3,775	0	-3,775	–
Office/Warehouse	–	200,200	100,000	50.0%	69,000	100,000	-31,000	–
Retail	\$9.70-\$12.48	672,501	57,347	8.5%	26,992	0	26,992	0.7
Class A	–	–	–	–	–	–	–	–
Class B	\$9.70-\$13.42	524,504	46,462	8.9%	24,092	0	24,092	0.6
Class C	\$9.69	147,997	10,885	7.4%	2,900	0	2,900	1.3
Retail/Warehouse	\$4.00-\$12.50	104,548	22,000	21.0%	-11,000	0	-11,000	–
Warehouse	\$3.95-\$4.61	317,794	237,615	74.8%	2,575	0	2,575	30.8

<sup>1</sup>From all Q4 2004 respondents

<sup>2</sup>From Q4 2004 respondents who were also Q3 2004 respondents

## 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 level 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

Next, properties are individually examined to determine if they are part of the competitive commercial property market. Owner-occupied and other dedicated spaces are eliminated from the base of properties that the Skyline Report examines.

The second source of data that helps comprise 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 fourth quarter of 2004, 68 panelists provided data on 406 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 406 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 both 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.

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