



2013 Northwest Arkansas Apartment Market Overview and 2014 Forecast

Prepared by

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2013 NORTHWEST ARKANSAS APARTMENT MARKET OVERVIEW AND 2014 FORECAST

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The Northwest Arkansas apartment market continues to remain strong with occupancies holding relatively firm while raising overall rental rates 3.3% year over year according to CBRE|NW Arkansas' year-end 2013 apartment market survey. All submarkets, with the exception of Rogers, saw rental rate increases with Fayetteville leading the way at 5.3% when compared to 2012. One bedroom apartments had the largest gains with an average increase of 6.7% across all submarkets covered by the survey. Student housing construction surrounding the University of Arkansas remains extremely active catering to the university and the additional 6,000 students added to U of A's enrollment over the last five years. The strength of the economy in Northwest Arkansas with a November 2013 unemployment rate of 5.4% continues to far outperform the state and nation. The Northwest Arkansas Metro recently ranked 2nd in the nation in Short Term Job Growth, according to the annual Milken Institute's Best Performing Cities 2013 rankings. Over the last two years Fayetteville, Springdale, Rogers and Bentonville have combined to create 6,176 or 94% of the jobs created in Arkansas' 10 largest cities. The following results from our year-end multifamily survey further demonstrates the economic strength of the metro area.

Rental Rates and Occupancies

Following are this year's rental highlights:

- Compared to one year ago, **on average:**
 - » The average rental rate in Northwest Arkansas rose 3.3% or \$19 per month to \$591.
 - » One bedroom units rose \$31 per month to \$502.
 - » Two bedroom/one bath units rose \$9 per month to \$525.
 - » Two bedroom/two bath units rose \$15 per month to \$699.
 - » Three bedroom/two bath units stayed the same at \$855 per month.
 - » Four bedroom units dropped \$83 per month to \$1,033.
- Rent specials and concessions were up slightly but remain quite uncommon in Northwest Arkansas' apartment market. While conducting the year-end survey this year, approximately 15% of the properties surveyed were running some form of special or rent concession – up from 8% six months ago and 12% a year ago. The most common specials were 1/2 off first month's rent on a 12 month lease, first month off on a 13 month lease along with some "look and lease" related specials such as waived or discounted application fee and/or security deposit.

Following are the year's occupancy highlights:

- Compared to one year ago, **on average:**
 - » Year-end 2013 overall occupancy in Northwest Arkansas averaged 96.5%, down from 97% reported one year ago.
 - » Fayetteville's average occupancy is 97.5%, down from 98% one year ago.
 - » Springdale's average occupancy is 95%, up from 94.5% one year ago.
 - » Rogers' average occupancy is 98.5%, up from 97.5% one year ago.
 - » Bentonville's average occupancy is 93.5%, down from 97% one year ago.

Sales Activity

Transaction activity in 2013 was solid with approximately six sales over 50 units in size, slightly below the post recession normal transaction average of seven sales per year. Average prices were composed of a wide variation based on the age of the product. As an example, the only 1980s vintage class of property that sold did so for \$26,786 per unit, down from the 1980s vintage average of \$42,088 per unit back in 2011. Four of the six transactions for 2013 were built from 2005 through 2009 with sale prices ranging from \$36,782 per unit to \$73,889 per unit. The only other transaction was the sale of the student housing property University House, formerly known as The Domain, to Inland American Communities for \$42,150,000 which breaks down to \$184,868 per unit or \$64,450 per bed.

Expect 2014 to see a slightly higher than average price for 1980s through 2000s vintage categories along with the potential for one or two investment grade assets to trade, a trend consistent with what we have seen over the last few years. We expect transaction volume to exceed historic norms in the near term with new regional and national investors targeting tertiary markets like Northwest Arkansas. We still expect private capital to dominate investment activity across Northwest Arkansas but do feel there is a chance of being added as a potential territory for other REITs to follow Inland's lead and enter the market.

New Construction

Apartment construction in 2013 for market rate units produced just one completion – Copperstone Phase II located in Bentonville – adding just 96 total units in Northwest Arkansas for the year. Although we did not include Copperstone Phase II in our occupancy results, it was most likely the catalyst in the occupancy dip in Bentonville from 97% in December 2012 to its current rate at 93.5% pulling down occupancy of its competition. In addition to adding Copperstone Phase II, The Lindsey Companies will soon begin construction on the Trails at Rainbow Curve located in Bentonville. The Trails at Rainbow Curve will add 487 market rate units to Bentonville which upon opening may hamper occupancy but should be absorbed at a reasonable pace. Expect additional development to be announced throughout 2014 and the overall pace to pick up over the next few years.

As stated over the past surveys, we believe new student housing construction projects has been the primary reason market rate construction has been stagnant. Below is an updated list of the student housing apartment complexes recently opened and under construction in Fayetteville near The University of Arkansas along with their completion date:

The Grove	Fayetteville	232 Units.....	Fall 2012
University House (The Domain).....	Fayetteville	228 Units.....	Fall 2013
The Vue.....	Fayetteville	180 Units.....	Fall 2013
Sterling Frisco.....	Fayetteville	183 Units.....	Fall 2013
The Cardinal at West Center	Fayetteville	250 Units.....	Fall 2014
Eco Downtown	Fayetteville	250 Units.....	2015
Harvy's Hill	Fayetteville	250 Units.....	2015

Conclusion

As the high occupancy levels in Northwest Arkansas begin to spur new construction outside of the U of A student oriented area we expect to see some slight softening in occupancies. However, due to the lack of current construction in market rate units we do not see this occurring for another 12-18 months. It does not appear the boom in student housing in Fayetteville has affected market rate apartment rental rates or occupancies but instead has kept in line with demand brought on by the jump in U of A enrollment. As market fundamentals continue to hold strong we expect all classes of multifamily product to trade at a premium in 2014 as apartments continue to remain the prized asset class for commercial real estate investors. With the single family housing recovery in full swing, a potential tourism bump with the completion of the Crystal Bridge Museum, steady job growth and an unemployment rate expected to continue to outperform the state and nation, Northwest Arkansas' apartment market will maintain its upward momentum for the foreseeable future.

Note: The Northwest Arkansas Apartment Market Survey for Year-End 2013 conducted by CBRE|NW Arkansas included over 22,000 units of the approximate 28,500 apartment units located within Fayetteville, Springdale, Rogers and Bentonville. The data within is supplied by multifamily property owners and managers.

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FAYETTEVILLE APARTMENT SURVEY

Area Covered:	Fayetteville city limits
Apartments Covered:	Apartment complexes with 50 units or more; tenants pay utilities; 9,622 units sampled
Occupancies:	Averaging – 97.5% ↓
Range:	82% – 100%
Most Often Quoted Deposit:	\$200 for one bedroom apartments, \$200 for two bedroom apartments, \$200 for three bedroom apartments and \$300 for four bedroom apartments

Type	Average Rent*	Average Sq. Ft.	Average Rent Per Sq. Ft.	Rent Range
1 BR/1 BA	\$513 ↑	591	\$0.87	\$350–\$770
2 BR/1 BA	\$531 ↑	782	\$0.68	\$415–\$720
2 BR/2 BA	\$688 ↑	1,020	\$0.67	\$505–\$1,392
3 BR/2 BA	\$935 ↑	1,154	\$0.81	\$650–\$1,365
4 BR/2 BA	\$1,033 ↑	1,167	\$0.89	\$799–\$1,500

* All rents shown are based upon calculated “effective” rents.

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SPRINGDALE APARTMENT SURVEY

Area Covered:	Springdale city limits
Apartments Covered:	Apartment complexes with 50 units or more; tenants pay utilities; 5,189 units sampled
Occupancies:	Averaging – 95% ↑
Range:	76% – 100%
Most Often Quoted Deposit:	\$200 for one bedroom apartments, \$200 for two bedroom apartments and \$250 for three bedroom apartments

Type	Average Rent*	Average Sq. Ft.	Average Rent Per Sq. Ft.	Rent Range
1 BR/1 BA	\$416 ↔	582	\$0.72	\$325–\$560
2 BR/1 BA	\$479 ↓	768	\$0.62	\$425–\$600
2 BR/2 BA	\$601 ↑	980	\$0.61	\$495–\$700
3 BR/2 BA	\$650 ↑	1,121	\$0.58	\$466–\$910

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ROGERS APARTMENT SURVEY

Area Covered:	Rogers city limits
Apartments Covered:	Apartment complexes with 50 units or more; tenants pay utilities; 3,822 units sampled
Occupancies:	Averaging – 98.5% ↑
Range:	93% – 100%
Most Often Quoted Deposit:	\$150 for one bedroom apartments, \$200 for two bedroom apartments and \$350 for three bedroom apartments

Type	Average Rent*	Average Sq. Ft.	Average Rent Per Sq. Ft.	Rent Range
1 BR/1 BA	\$535 ↓	652	\$0.82	\$310–\$950
2 BR/1 BA	\$484 ↓	777	\$0.62	\$415–\$820
2 BR/2 BA	\$806 ↓	1,126	\$0.72	\$405–\$1,130
3 BR/2 BA	\$1,005 ↑	1,293	\$0.78	\$595–\$1,500

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BENTONVILLE APARTMENT SURVEY

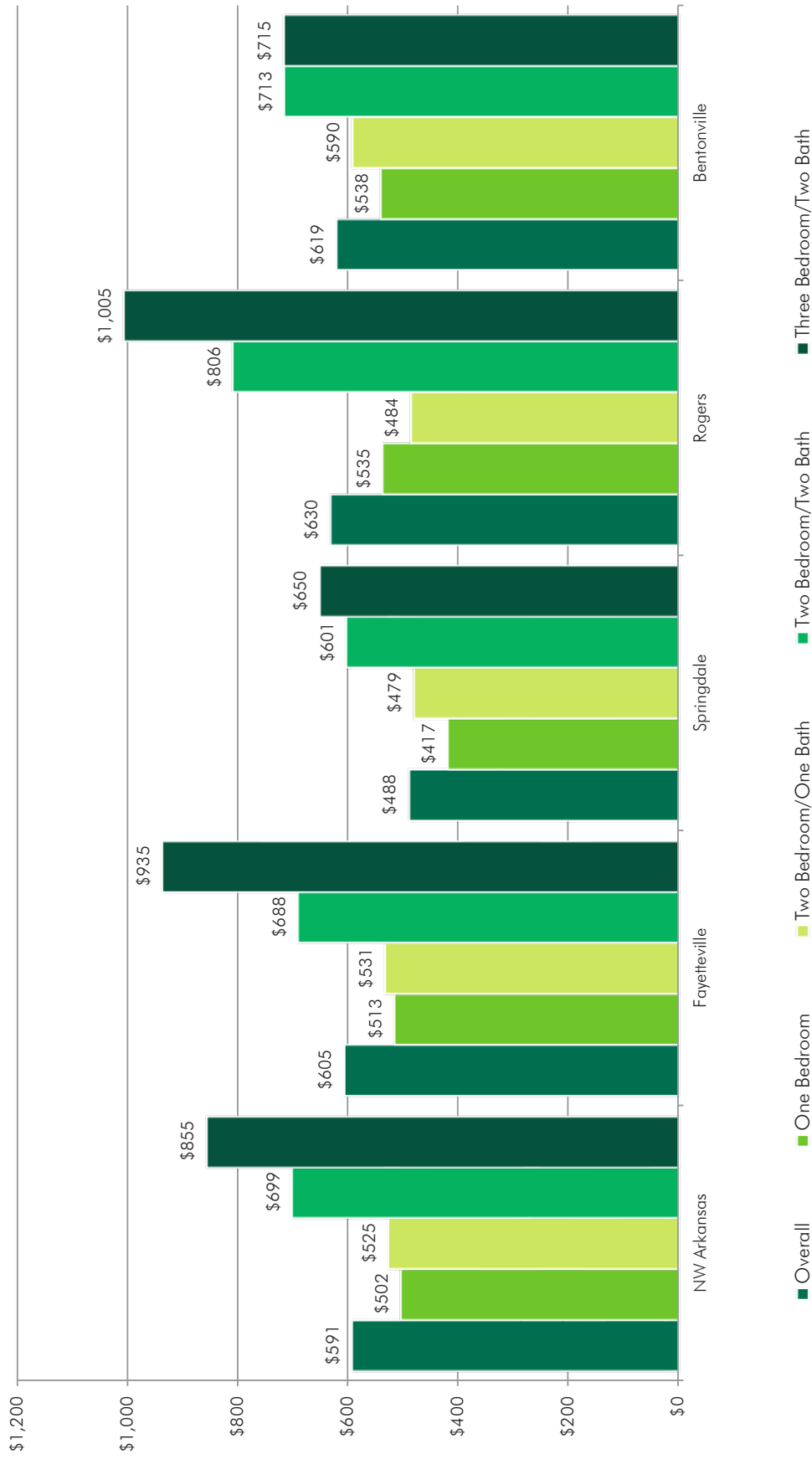
Area Covered:	Bentonville city limits
Apartments Covered:	Apartment complexes with 50 units or more; tenants pay utilities; 3,643 units sampled
Occupancies:	Averaging – 93.5% ↓
Range:	72% – 100%
Most Often Quoted Deposit:	\$200 for one bedroom apartments, \$200 for two bedroom apartments and \$300 for three bedroom apartments

Type	Average Rent*	Average Sq. Ft.	Average Rent Per Sq. Ft.	Rent Range
1 BR/1 BA	\$538 ↑	644	\$0.84	\$375–\$658
2 BR/1 BA	\$590 ↑	850	\$0.69	\$435–\$685
2 BR/2 BA	\$713 ↑	990	\$0.72	\$529–\$853
3 BR/2 BA	\$715 ↓	1,193	\$0.60	\$625–\$903

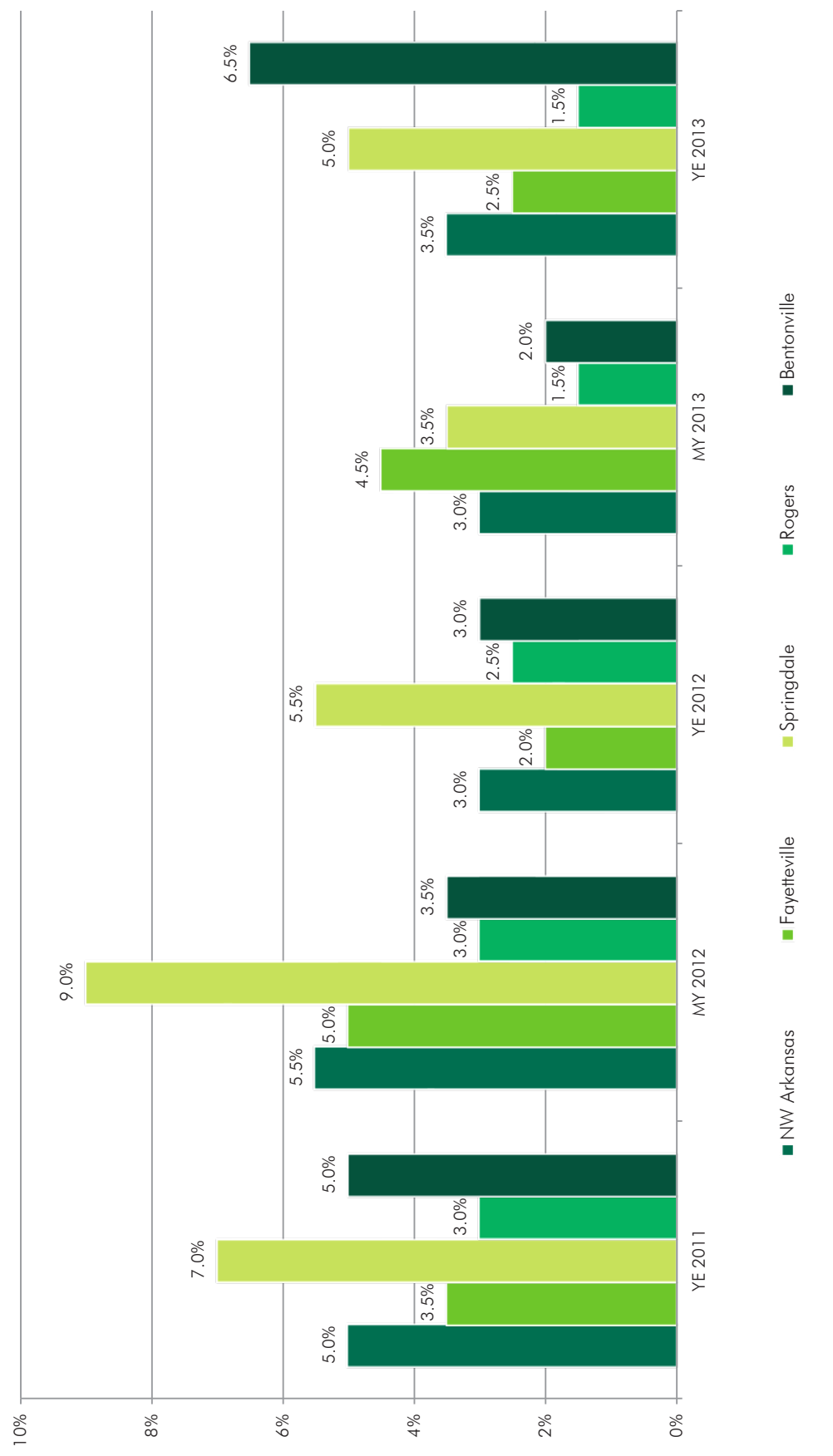
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NORTHWEST ARKANSAS AVERAGE APARTMENT RENTAL RATES



NORTHWEST ARKANSAS APARTMENT MARKET AVERAGE VACANCY



NORTHWEST ARKANSAS AVERAGE APARTMENT SALE PRICE PER UNIT

