2014 Northwest Arkansas Apartment Market Overview and 2015 Forecast

Prepared by

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CBRE

The Northwest Arkansas apartment market continues to remain extremely strong with both occupancies and rental rates increasing 1.5% year over year according to the CBRE year-end 2014 apartment market survey. Most impressive among the statistics is the fact that the 1.5% bump in occupancies took the market to 98% which is the highest occupancy rate recorded since the inception of our multifamily survey in 2010. We have always maintained the strength of the multifamily market mirrors the strength of the local economy. With an unemployment rate of 4.5% in November 2014 the Fayetteville-Springdale-Rogers-Bentonville area continues to out-perform the state and nation.

Following is a summary of the results of our survey:

Rental Rates and Occupancies

Rental highlights include:

- Compared to one year ago, **on average**:
  - » The average rental rate in Northwest Arkansas rose $7 per month to $598.
  - » One bedroom units stayed the same at $502 per month.
  - » Two bedroom/one bath units rose $13 per month to $538.
  - » Two bedroom/two bath units rose $7 per month to $706.
  - » Three bedroom/two bath units rose $1 per month to $856.
  - » Four bedroom units dropped $27 per month to $1,006.
- Rent specials and concessions are becoming less common in Northwest Arkansas' apartment market. While conducting the year-end survey this year, approximately 8% of the properties surveyed were quoting some form of rent special or rent concession – down from 9% six months ago and 15% a year ago. The most common specials were 1/2 off first month rent on a 12 month lease, first month off on a 13 month lease along with some "look and lease" related specials such as a waived or discounted application fee and/or security deposit.

Occupancy highlights include:

- Compared to one year ago, **on average**:
  - » Year-End 2014 overall occupancy in Northwest Arkansas averaged 98%, up from 96.5% reported one year ago.
  - » Fayetteville's average occupancy is 97.5%, unchanged from one year ago.
  - » Springdale's average occupancy is 97.5%, up from 95% one year ago.
  - » Rogers' average occupancy is 98.5%, unchanged from one year ago.
  - » Bentonville's average occupancy is 98%, up from 93.5% one year ago.

Sales Activity

Transaction activity in 2014 increased with twelve transactions over 50 units in size compared to seven the previous year. Eight of the twelve transactions were of properties built since 2000. The average sale price of these eight transactions was $43,159 per unit with prices ranging from $26,000 per unit to $75,000 per unit. Only one asset sold of 1990s vintage at a price just over $58,000 per unit. Two of the twelve transactions were of 1980s vintage averaging $29,155 per unit, and the lone 1970s vintage sale traded for $24,000 per unit.

We expect transaction volume to exceed historic norms in the near term as demand for multifamily investments continues to remain high. With a high degree of competition in primary and secondary markets, regional and national investors are increasingly targeting tertiary markets like Northwest Arkansas. Private capital will continue to dominate investment activity across Northwest Arkansas. However if competition for multifamily assets remains high in primary markets, then we feel the potential of being added as a preferred territory for REITs and institutional capital is possible.

New Construction

2014 saw the completion of no market rate apartment units as both the Trails at Bentonville (487 units) and Thrive (62 units) in Bentonville failed to open before the end of the year. This influx of 549 units in 2015 could affect occupancy in the near term. In addition to the 549 units set to open in Bentonville in 2015, four other market rate apartment communities have been announced – all in different phases of planning and development. Of the four only one, Rogers at Promenade, a 200 unit luxury Class A community, is under construction and scheduled to have Phase I open by fall of 2015. If Rogers at Promenade hits its opening date, 2015 could see a total of 749 units added to the market. The other three communities, Uptown Apartments in Fayetteville, The Parc at Bentonville and The Links at Fayetteville Phase II, are all still in planning stages and are not expected to open until 2016.

Student housing construction in 2014 saw just one community open, Cardinal at West Center, consisting of 150 units/470 bedrooms. This is a rather significant drop off from 2012 and 2013 which saw an average of 432 units/1,291 bedrooms completed. We expect this number to pick back up in 2015 and 2016 with the potential for 717 units/2,102 bedrooms planned for construction.

Below is our updated list of the student housing apartment complexes open and under construction/planned for construction near the University of Arkansas along with their completion/planned completion date:

The Grove	Fayetteville	232 Units/632 Bedrooms	Fall 2012
University House (The Domain)	Fayetteville	228 Units/654 Bedrooms	Fall 2013
The Vue	Fayetteville	180 Units/656 Bedrooms	Fall 2013
Sterling Frisco	Fayetteville	224 Units/640 Bedrooms	Fall 2013
Cardinal at West Center	Fayetteville	150 Units/470 Bedrooms	Fall 2014
Beechwood Village	Fayetteville	213 Units/670 Bedrooms	Fall 2015
Gather on Dickson	Fayetteville	124 Units/233 Bedrooms	Fall 2015
Sterling Frisco Phase II	Fayetteville	250 Units/559 Bedrooms	Fall 2016
Harveys Hill	Fayetteville	130 Units/640 Bedrooms	Fall 2016

Conclusion

As predicted, the recent lack of new construction across Northwest Arkansas' apartment market allowed occupancies to reach 98%. Occupancy rates north of 95% generally spur new construction, and we expect this to hold true throughout 2015 with more market rate construction announcements to come. Additionally, due to predicted high occupancy levels, we feel annual rental rate increases will exceed their 2014 performance. Due to the addition of approximately 2.5% to the existing supply of apartment units in Northwest Arkansas, we expect occupancy rates to drop 1% in 2015 but still remain above 95% – especially outside of Bentonville. Investment sales should remain robust with transaction numbers on pace with 2014 and average pricing up as demand continues to drive pricing. Investors will remain very active as long-term interest rates remain low with attractive fixed rates still available.

Note: The Northwest Arkansas Apartment Market Survey for Year-End 2014 conducted by CBRE included over 22,000 units of the approximate 29,000 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:	87% – 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	$477 ↓	587	$0.81	$350–$818
2 BR/1 BA	$538 ↑	780	$0.69	$435–$750
2 BR/2 BA	$669 ↓	995	$0.67	$445–$1,320
3 BR/2 BA	$816 ↓	1,100	$0.74	$550–$1,448
4 BR/2 BA	$1,006 ↓	1,150	$0.88	$750–$1,500

* All rents shown are based upon calculated "effective" rents.

NOTE: The symbols ↑, ↓, ↔ denote increases, decreases and no change respectively from previous survey six months ago.

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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 – 97.5% ↑
Range:	89% – 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	$444 ↑	609	$0.73	$350–$615
2 BR/1 BA	$502 ↑	788	$0.64	$435–$615
2 BR/2 BA	$615 ↑	985	$0.62	$504–$781
3 BR/2 BA	$665 ↑	1,121	$0.59	$466–$880

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

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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: 96% – 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	$568 ↑	671	$0.85	$380–$950
2 BR/1 BA	$514 ↑	790	$0.65	$420–$844
2 BR/2 BA	$861 ↑	1,128	$0.76	$505–$1,160
3 BR/2 BA	$1,078 ↑	1,357	$0.79	$635–$1,500

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

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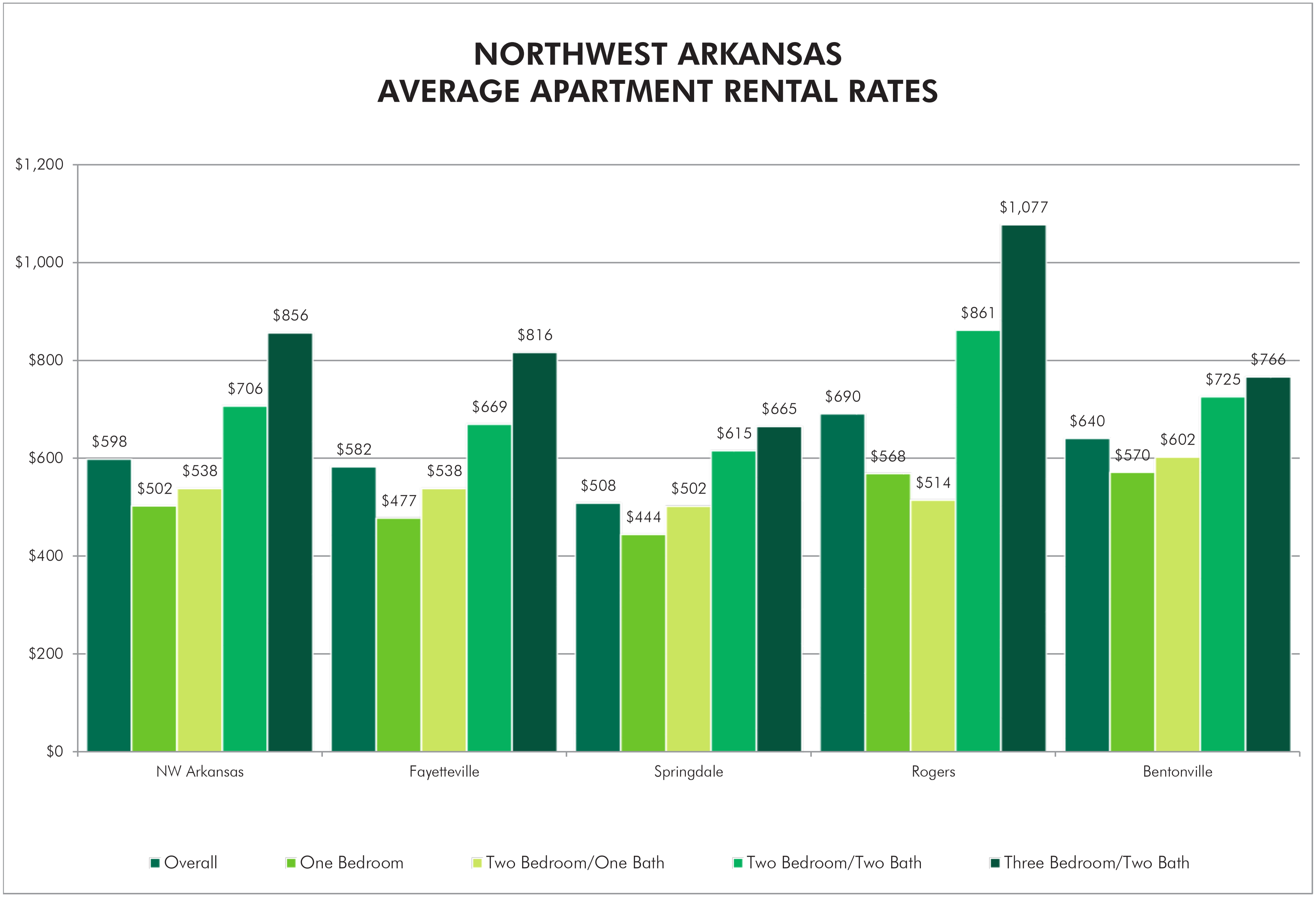
BENTONVILLE APARTMENT SURVEY

Area Covered:	Bentonville city limits
Apartments Covered:	Apartment complexes with 50 units or more; tenants pay utilities; 3,643 units sampled
Occupancies:	Averaging – 98% ↑
Range:	92% – 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	$570 ↑	653	$0.87	$385–$730
2 BR/1 BA	$602 ↑	844	$0.71	$445–$700
2 BR/2 BA	$725 ↑	1,014	$0.71	$545–$815
3 BR/2 BA	$766 ↑	1,193	$0.64	$640–$1,100

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

NOTE: The symbols ↑, ↓, ↔ denote increases, decreases and no change respectively from previous survey six months ago.


NORTHWEST ARKANSAS
AVERAGE APARTMENT RENTAL RATES
$1,200
$1,000
$800
$600
$400
$200
$0
$598
$502
$538
$706
$856
$582
$477
$538
$669
$816
$508
$444
$502
$615
$665
$690
$568
$514
$861
$1,077
$640
$570
$602
$725
$766
NW Arkansas
Fayetteville
Springdale
Rogers
Bentonville
Overall
One Bedroom
Two Bedroom/One Bath
Two Bedroom/Two Bath
Three Bedroom/Two Bath

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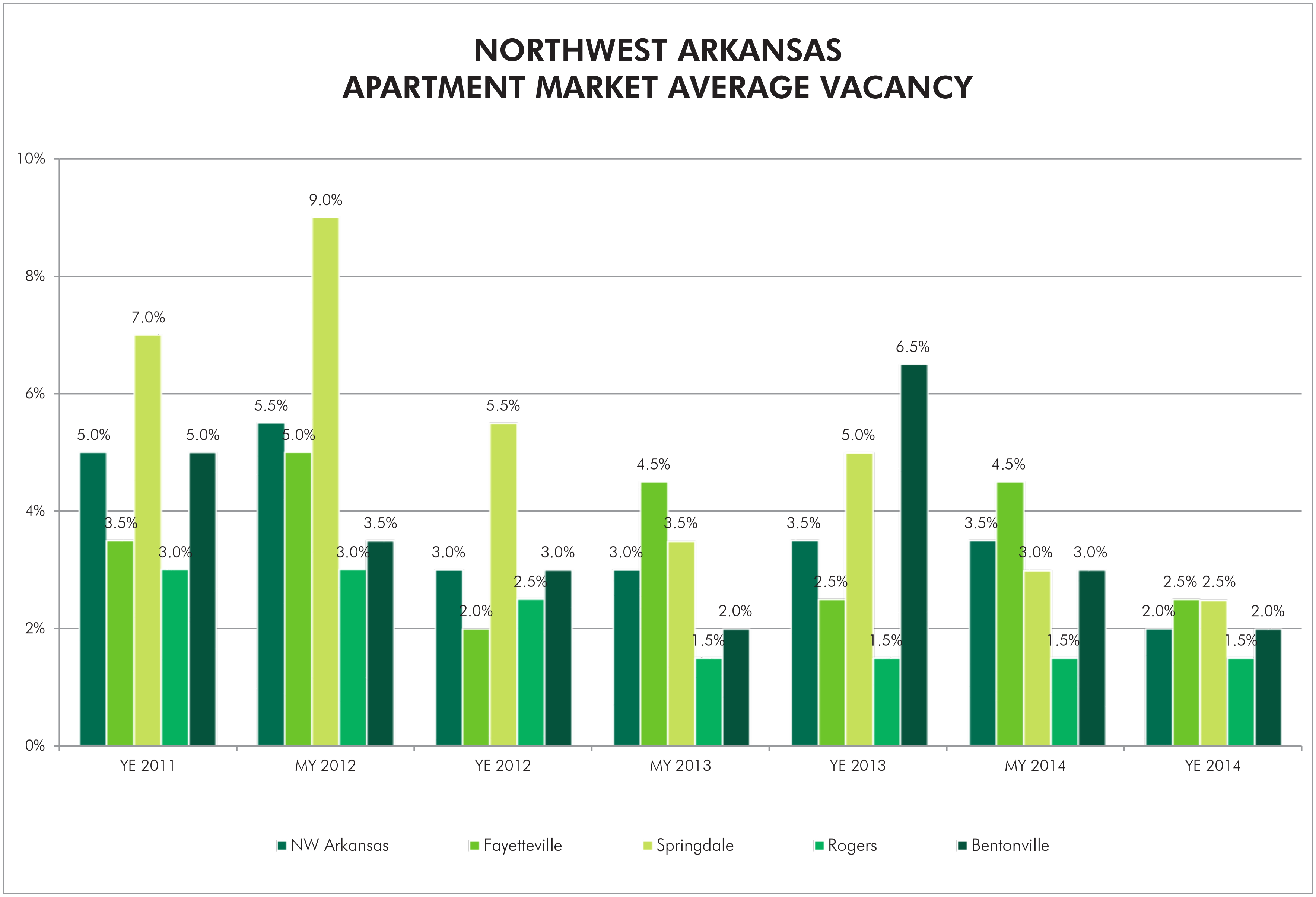
NORTHWEST ARKANSAS
APARTMENT MARKET AVERAGE VACANCY
10%
8%
6%
4%
2%
0%
5.0%
3.5%
7.0%
3.0%
5.0%
5.5%
5.0%
9.0%
3.0%
3.5%
3.0%
2.0%
5.5%
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3.5%
4.5%
3.0%
1.5%
3.0%
2.0%
2.5% 2.5%
1.5%
2.0%
YE 2011
MY 2012
YE 2012
MY 2013
YE 2013
MY 2014
YE 2014
NW Arkansas
Fayetteville
Springdale
Rogers
Bentonville

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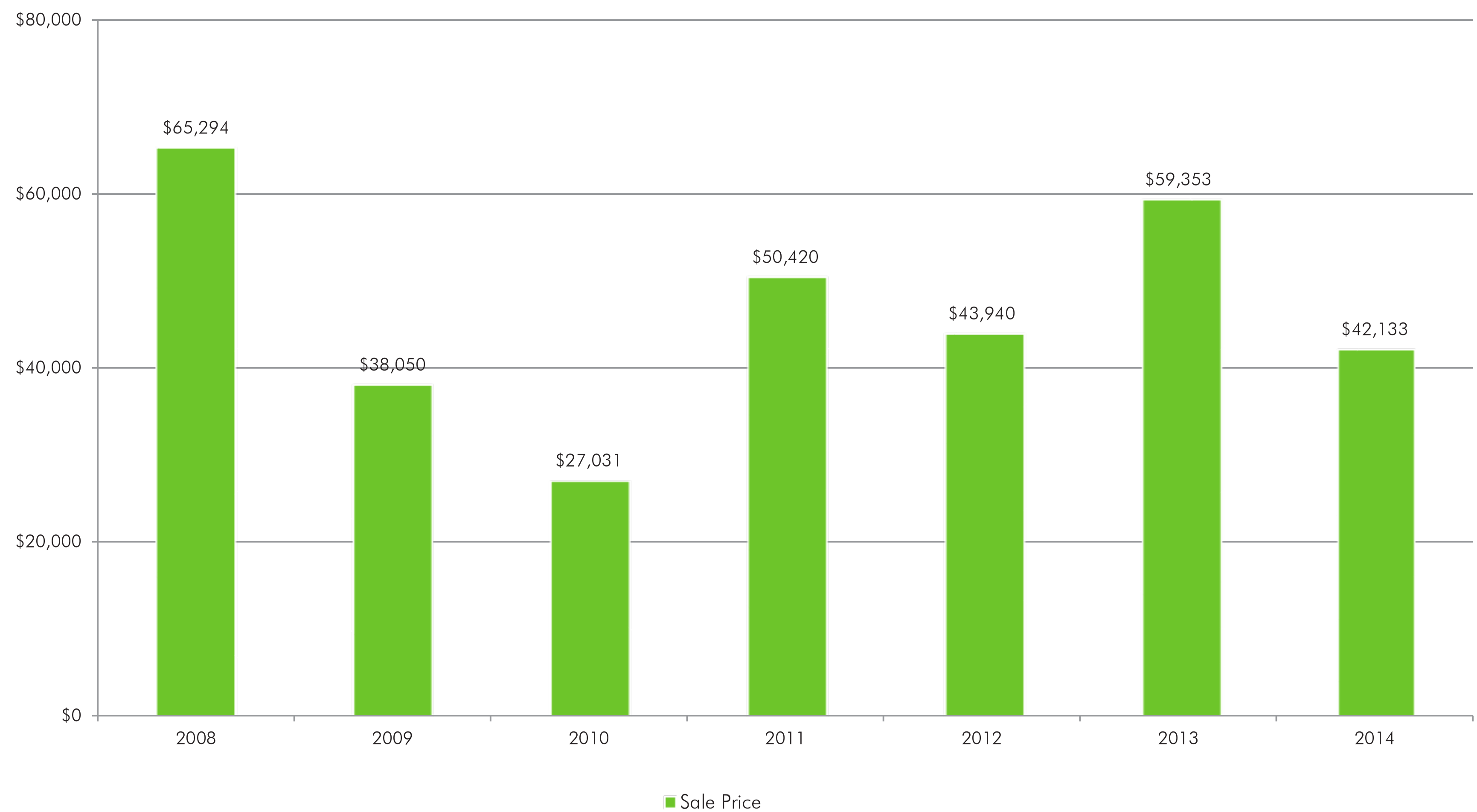
NORTHWEST ARKANSAS
AVERAGE APARTMENT SALE PRICE PER UNIT



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