

# METRO TRENDS

Economic Review and Outlook

December 2017

The Changing  
Face of Retail

- Economic Update 2017
- E-commerce, Retailing and Central Arkansas
- A Retail Metamorphosis
- Housing Construction Climbs in Early 2017
- Construction Values 2016
- Economic Outlook 2017

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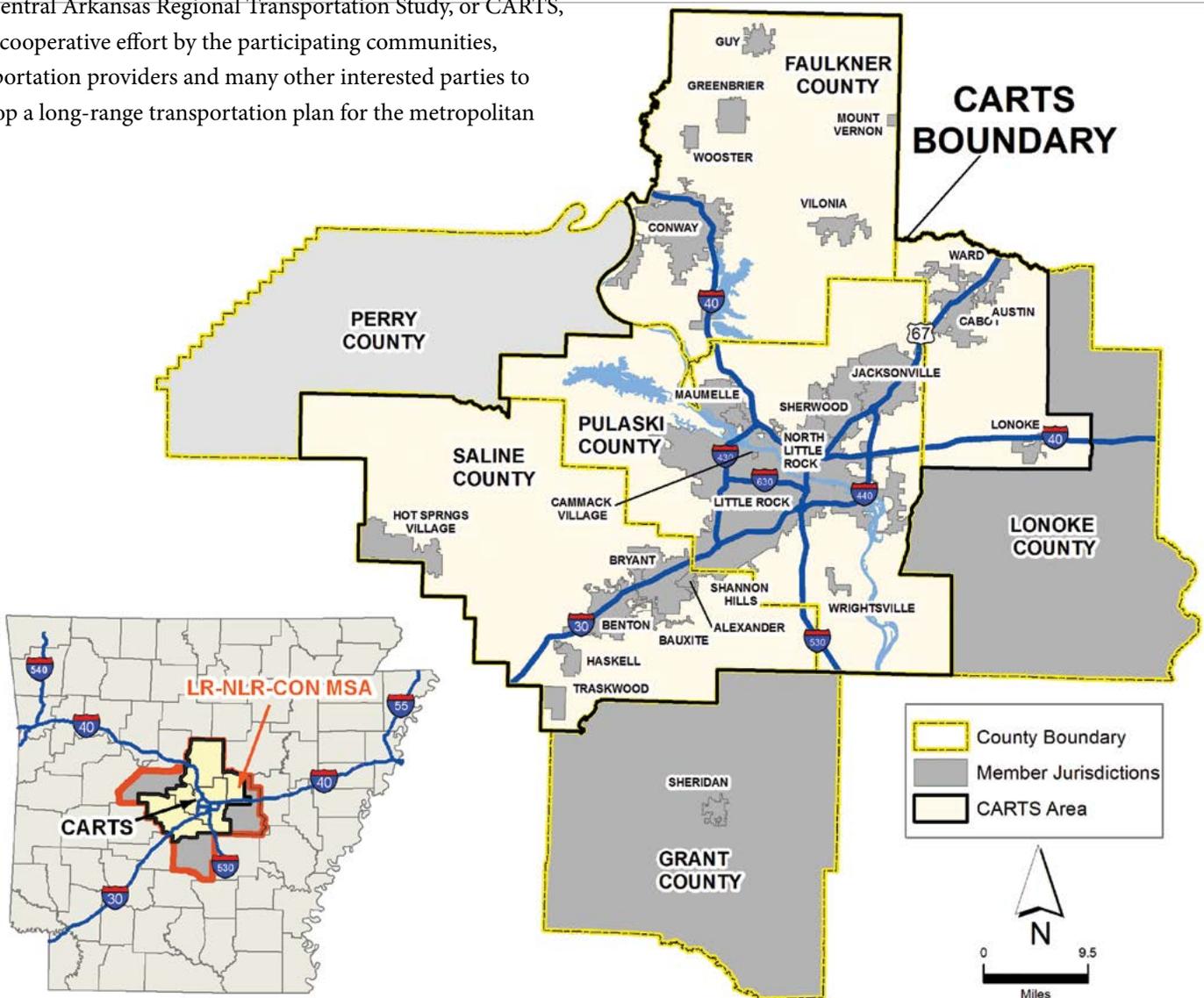
## About Metroplan

Metroplan is a voluntary association of local governments that has operated by interlocal agreement since 1955. Originally formed as the Metropolitan Area Planning Commission of Pulaski County, Metroplan now has members in five counties of the six-county metro area (see below). Metroplan is the designated metropolitan planning organization (MPO) under Title 23 of the United States Code.

Metroplan serves as the regional voice on issues affecting Central Arkansas, develops transportation plans required by federal law, convenes stakeholders to deal with common environmental issues, and provides information and staff resources to our member local governments, the business community and the public. As part of that mission, Metroplan publishes *Metrotrends* twice yearly. The spring edition is the *Demographic Review and Outlook*; the fall edition is the *Economic Review and Outlook*.

## About CARTS

The Central Arkansas Regional Transportation Study, or CARTS, is the cooperative effort by the participating communities, transportation providers and many other interested parties to develop a long-range transportation plan for the metropolitan area.



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Metroplan's *Economic Review and Outlook* is an annual chronicle providing economic data and insight for the Little Rock-North Little Rock-Conway MSA.

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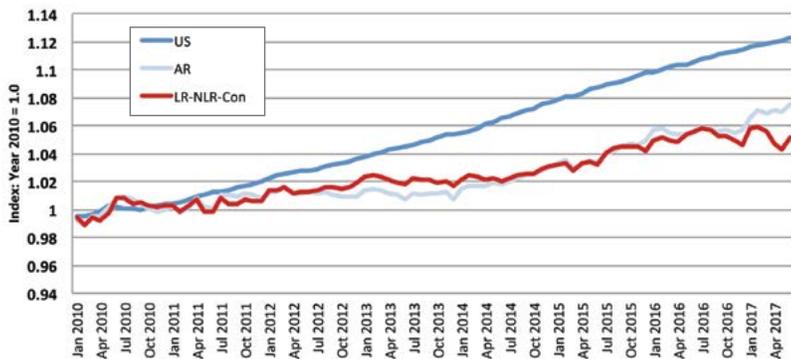
# Economic Update 2017

The Little Rock metro area remains in a pattern of slow economic and population growth. Job growth remains tepid, with a net gain of just 0.5 percent from January to July of 2017.<sup>1</sup> This compares with 2.2 percent for Arkansas and 2.1 percent U.S. job growth in the same period. The chart below shows that the Little Rock region has seen negligible job gains since mid-2016, and is lagging state and national trends.

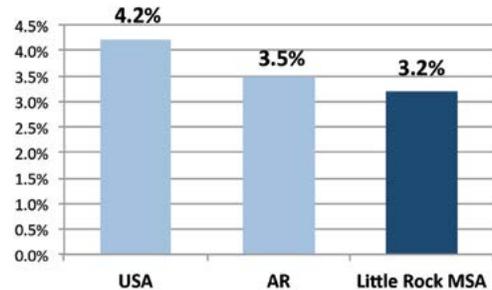
Regional unemployment remains low, however, at 3.2 percent compared with 3.5 percent for the state and 4.2 percent for the U.S. in September, 2017.<sup>1</sup>

Demand for willing workers is strong, and this continues luring people into the workforce. Local labor force participation climbed again in 2017, reaching 49.7 percent of population. Yet it remains lower than it was as recently as 2012, suggesting many potential workers are still avoiding the job market. Demand is strong for highly-skilled workers, who can expect good rates of pay, and for low-skilled workers willing to accept low wages, but there is a lack of jobs in the middle range of pay and skill. This may explain the economy's difficulty luring idle people into the labor force (See chart on the next page).

**Employment Change January 2010–July 2017  
(Monthly, Seasonally Adjusted)**



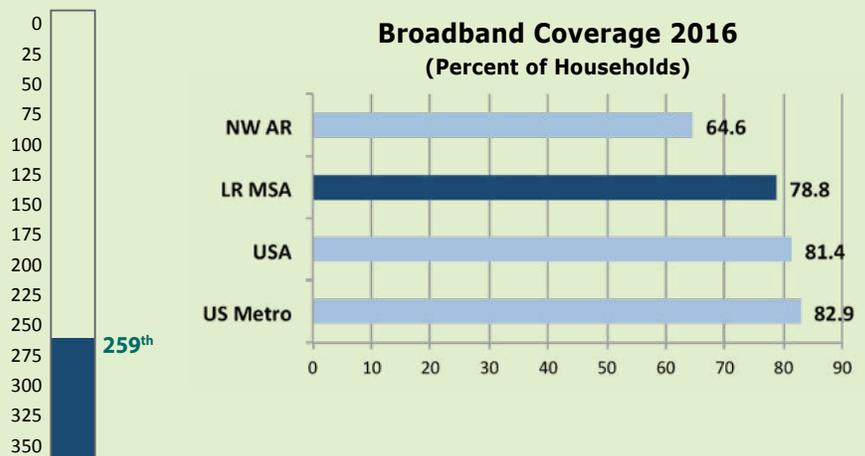
**Unemployment Rate September 2017**



<sup>1</sup> Seasonally adjusted.

## Little Rock MSA Ranking: Broadband Coverage

Although the Little Rock region has measurable strengths in the tech sector, its share of households with broadband coverage ranks in the bottom third—259th among 382 U.S. metros. This is behind rival metros like Oklahoma City and Baton Rouge. The Little Rock region nonetheless outdoes the fast-growing Northwest Arkansas metro, which ranks near last at 377th, with 64.6 percent of households having broadband.



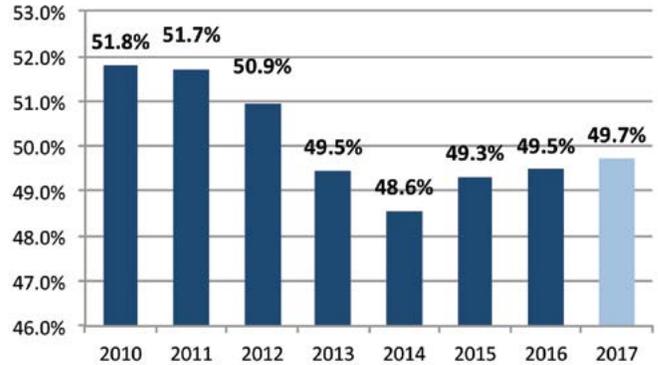
Source: ACS 2016.

The chart below conveys sources of GDP growth by industry for the Little Rock Metro versus the U.S. metro average in 2016.<sup>2</sup> As you can see, the local region only out-performed the U.S. metro average in three sectors :

- Education, health and social services
- Trade
- Non-durable manufacturing (just barely)

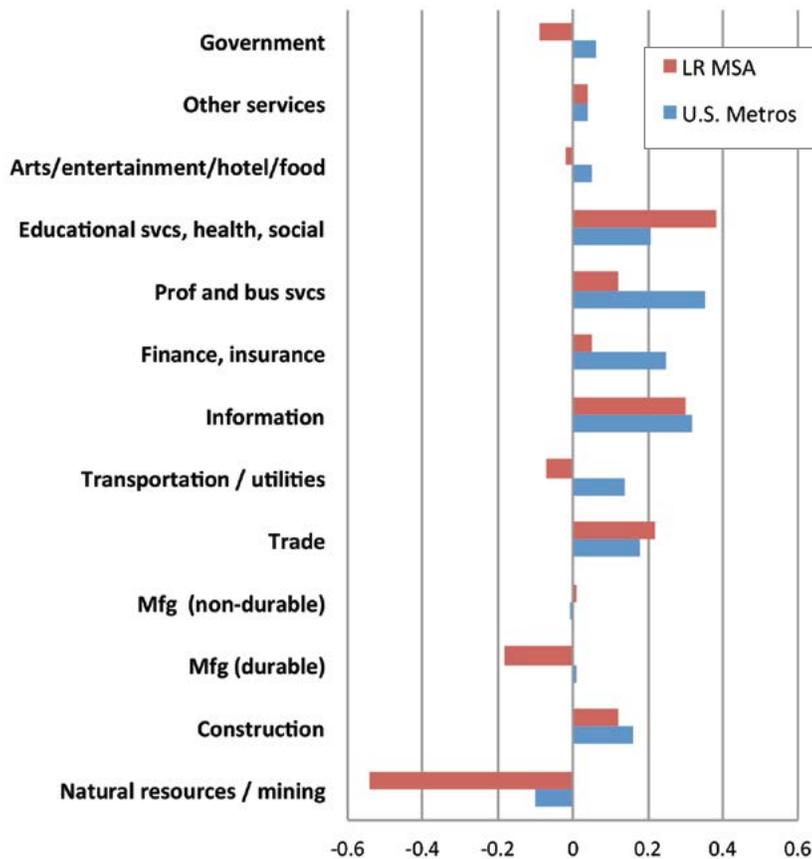
The “eds and meds” sector is historically a staple in Central Arkansas. Growth has been bolstered by state health policy, which includes a private system for guaranteeing Medicaid expansion. The trade sector is another area of traditional strength, albeit one that is undergoing wrenching changes with the growth of Internet sales.

### LR-NLR-Conway MSA Labor Force Share of Population 2010–2017



Sources: Labor force data from Arkansas Dept. of Workforce Services. 2. Census population figures for 2010. 3. Revised Metroplan population estimates for all other years. 4. Preliminary figures for 2017.

### Change in Contributions to GDP by Industry 2015–2016



Source: U.S. Bureau of Economic Analysis



Teamwork, technology and creativity at the Cranford Co. ad agency in Little Rock’s Creative Corridor.



The Little Rock region serves as a center of health care and trains workers for the rest of the state. Shown here: Dr. Blake Weber Dentistry. Photo credit: David Bell.

<sup>2</sup> Preliminary figures, U.S. Bureau of Economic Analysis.

All other local sectors under-performed the U.S. average, particularly mining (low natural gas prices being a likely factor) and durable manufacturing. Lack of growth in the government sector is likely a short-term adjustment in state fiscal policies.

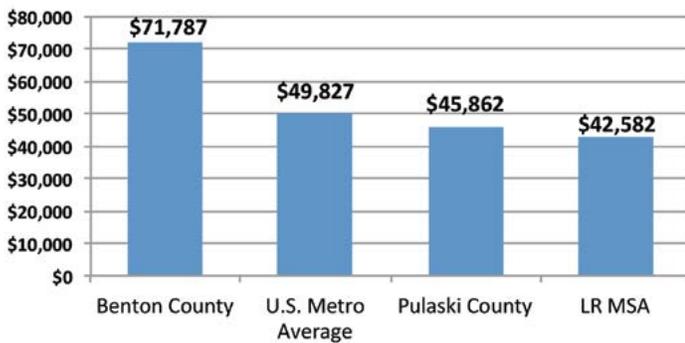
*E-commerce is altering assumptions about how goods and services are bought, delivered, and even how they are taxed.*

altering assumptions about how goods and services are bought, delivered, and even how they are taxed. With local governments depending on sales tax revenues, and with the Little Rock metro's role as a center of traditional in-store shopping, these changes are matters of vital local importance. This

Figures from the U.S. Bureau of Economic Analysis on per capita income show a new economic reality in the state of Arkansas. Pulaski County, which long held top rank in the state, has been demoted to second place by Benton County in the Northwest Arkansas metro region. Benton County's income in 2015 was nearly \$72,000, not far from twice as high as the state average of \$38,000 and substantially higher than Pulaski County (about \$46,000).

edition of the *Metrotrends Economic Review and Outlook* will look into the future of e-commerce and its impact on jobs and businesses in the retail trade. **M**

**Per Capita Income 2015**



Source: U.S. Bureau of Economic Analysis.

While the Little Rock metro remains larger overall in both population and economic terms, this change is suggestive of things to come. It is important to remember that the economies of the Northwest and Little Rock regions are structurally different, more complementary than competitive.

The national economic situation is characterized by low inflation, low unemployment and modest recent income gains. Lack of productivity growth has been cited as a possible cause of slow income growth, but the metrics for productivity and even GDP growth may not be keeping pace with today's economic reality, in which services and quality of experience matter more than raw production of manufactured goods.

At the same time, the global economy seems to be undergoing radical innovations in sectors like artificial intelligence, digital (3D) manufacturing, quantum computing, and Internet commerce. The last—more commonly called e-commerce—is



The local health sector has grown slightly faster than U.S. health care in recent years, and accounts for 8.7 percent of total regional GDP.



Growth in e-commerce is creating jobs in the warehousing sector. Photo: iStock.

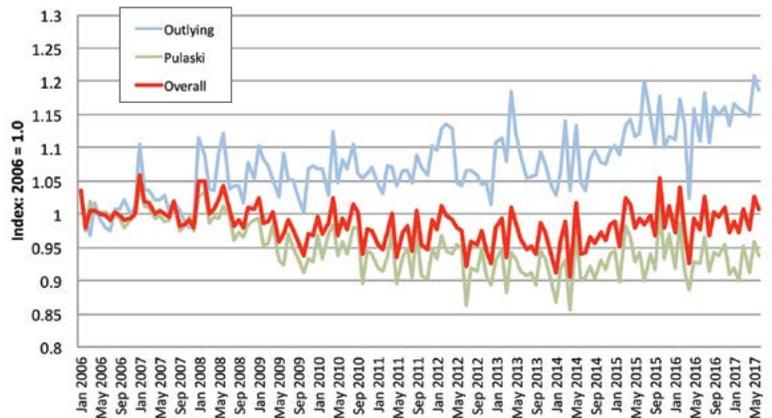
# E-commerce, Retailing and Central Arkansas

The Little Rock region is traditionally a retailing center. For decades, Little Rock and North Little Rock were known for their malls and sophisticated shops. Later the big-box stores arrived. Shoppers from many parts of the state converged on the region, especially during the holidays. The area has consistently shown a higher-than-average concentration of business activity in retailing.

When population began migrating outward from the central cities, retailing gradually followed. The first suburban growth was in Sherwood and Jacksonville, and later Maumelle. From the late 1980s onward, migration to outlying counties increased. Saline, Faulkner and Lonoke Counties boomed as bedroom communities. Retailing followed, first with grocery stores and restaurants, and later major centers opened, too. With populations well over 100,000, Faulkner and Saline Counties now host national name-brand big-box chains, and many small retail options. In recent years almost all the net growth in retail sales has been in these counties. Pulaski County retail sales have been essentially flat, actually declining after inflation adjustment.

Local employment in retailing has continued climbing, and accounts for over 11 percent of all jobs. National retail employment, by comparison, has almost stopped growing, and its job share has declined from over 11 percent in 2012 to 10.8 percent in 2017. This may suggest the e-commerce

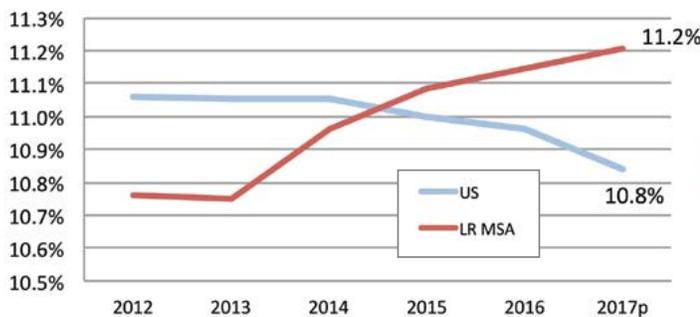
**LR MSA Retail Sales January 2006–June 2017**



Source: Arkansas Department of Finance and Administration Index, inflation adjustment and seasonal adjustment by Metroplan.

revolution—and its impact on jobs—has been tardy hitting Central Arkansas retail markets. National trends are worrisome, with e-commerce growth putting up to 1.5 million jobs at risk over the next five years.<sup>1</sup> In the past three years major new retail centers have opened in Conway, southwestern Little Rock and (most recently) in Benton. Given national trends and local statistics, local retailing may be over-built, and a down-shift could be imminent.

**Retail Share of Total Employment**



Source: U.S. Bureau of Labor Statistics and Arkansas Department of Workforce Services, share calculation by Metroplan.



A few empty storefronts, like this one in Little Rock's Riverdale area, can be seen in scattered locations across the region. You may see more soon.

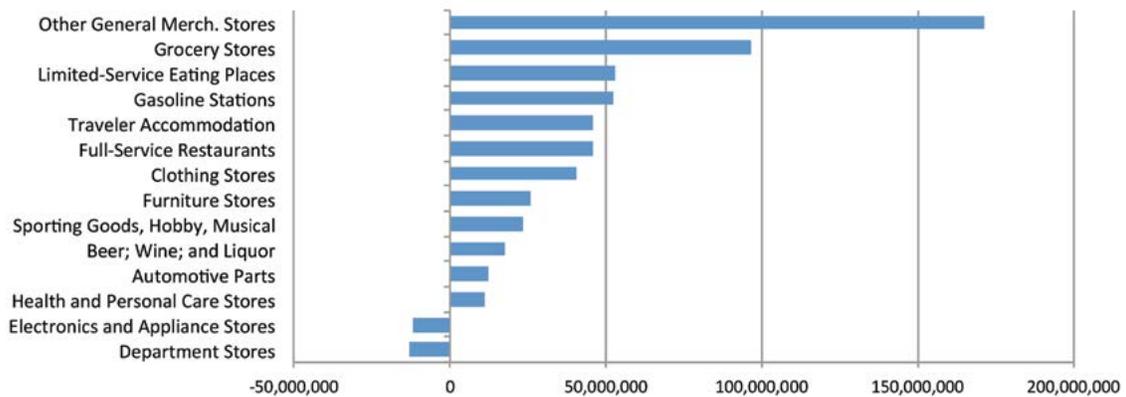
Many local retailers are still doing well. The chart below shows local sales trends by category in the 2014-2016 period.<sup>2</sup> The sector with the biggest gains, “Other General Merchandise Stores,” is composed mostly of warehouse clubs and outlets. Grocery stores were second, possibly reflecting growing demand for expensive prepared foods. Limited-service eating places came in third. By comparison, full-service restaurants ranked sixth for overall sales growth despite total sales over five times as large. Gas stations did well, selling convenience products as well as fuel. The only big sectors with negative sales trends

*Local retailing may be over-built, and a down-shift could be imminent.*

were electronic/appliance stores and conventional department stores, both heavily exposed to Internet competition.

The worry is less about the recent past than the near future, involving land use as well as jobs. Retail accounts for the majority of commercial land use—at least 57 percent in Pulaski County, for example.<sup>3</sup> There are already numerous vacant retail sites in the region. E-commerce growth may yield more empty storefronts and acres of unused parking lots within just a few years. **M**

**LR MSA Sales Change by Sector 2014–2016 (\$)**



Source: Arkansas Department of Finance and Administration. Sales growth calculations by Metroplan.



In recent years there has been more growth in limited-service eating places (like ZaZa’s in the Heights, shown here) than full-service restaurants.



Vacant storefronts in Conway’s newly completed Lewis Crossing may be a token of coming adjustments in commercial real estate.

<sup>1</sup> Figures from Economist, May 17, 2017. At the same rate, local loss would amount to 3,500 jobs.

<sup>2</sup> The fourteen local retail sectors with the largest total sales in 2016. Data represent July 2014-June 2015, compared with period July 2016-June 2017.

<sup>3</sup> Data only available for Pulaski County. Land use data suggest retail is between 57 and 67 percent of the commercial total.

# A Retail Metamorphosis

It started innocently enough. You got to know the Internet, and at some point you got brave and typed in a credit card number, then hit *click!* and made your first online purchase. A few days later, perhaps just before Christmas, a little brown treasure package arrived. It seemed like a small change, not a revolution. Yet today stores are struggling, and malls are threatened or closed. Old names like Payless ShoeSource are gone, and Toys R Us has declared bankruptcy. J.C. Penney, Macy's, Sears and many others are closing locations, and struggling with debt. Local governments have noticed their sales tax revenues flat-lining. *The Economist* recently predicted that America's retailing sector could lose 1.5 million jobs in the next five years.<sup>1</sup>

The chart below shows the share of e-commerce sales within the retail sector of the U.S. economy. As you can see, e-commerce is even more seasonal in nature than the rest of retailing, typically hitting a sharp peak every fourth quarter, then dropping back after the holidays. Overall, though, e-commerce grows rapidly year after year. In the fourth quarter of 2016, e-commerce sales hit 9.4 percent of all retail sales in the United States. That means other, more traditional forms of retailing—mainly brick-and-mortar stores— account for just 91.6 percent of sales, and dropping. Traditional stores

are now in slow-growth mode, and many individual chains are seeing sales declining, despite a robust overall economy. Why do retail trends matter? Because they have a lot to do with bigger issues, like jobs, land use, and opportunity.

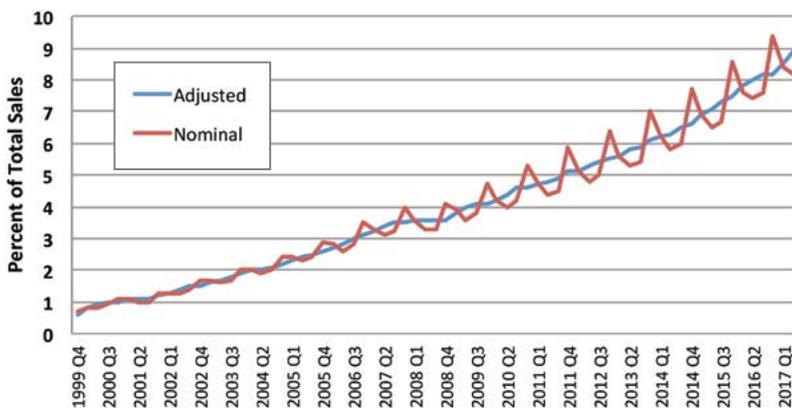
*Just as the loss of manufacturing jobs rocked the economy in recent decades, loss of retail jobs will cause economic pain.*

## Jobs

The retail sector accounts for 15.9 million jobs in the United States, and about 39,000 in the Little Rock Metro Area. In both cases, this is about one out of nine jobs. Retail work employs more people than manufacturing (both locally and in the overall U.S. economy) and offers employment for a lot of people.

By and large, these jobs don't pay especially well, nor do they require a high level of skill. Which is exactly why they are important, providing employment and income for people with few alternatives. Just as the loss of manufacturing jobs rocked the economy in recent decades, loss of retail jobs will cause economic pain. The growth of e-commerce is also opening up new jobs, mainly in computer fields, warehousing and courier/delivery services. The new jobs, however, typically require more skill than retailing, often including a college degree, while the number of jobs at risk remains far higher than those being gained.

**U.S. E-commerce Sales 1999 Q4–2017 Q2**



Source: U.S. Bureau of the Census.



The shipping industry, while growing fast, is struggling to keep up with e-commerce. Rising shipping costs may become a short-term constraint on growth.

<sup>1</sup>“Sorry, We’re Closed.” *Economist*, May 13, 2017.

## Land Use

Retailing accounts for a large share of commercial land across U.S. urban areas, including Central Arkansas. The closing of multiple stores could cause the decline of retail districts, even in relatively prosperous areas. The problem of flat-lining sales is especially acute in Pulaski County, which has seen displacement of some of its retailing by new facilities in Saline, Faulkner and Lonoke Counties in recent years. In the long run, though, even outlying areas will be affected. It appears that big-box retail facilities—until recently the biggest growth sector in retailing—will be especially hard-hit by e-commerce. Some stores are thriving, typically those that provide highly interactive shopping, including quality of experience or entertainment. Overall, the loss of retail business will affect sales tax revenues, upon which local governments depend. The closing of stores will also affect property tax revenues.

## Opportunity

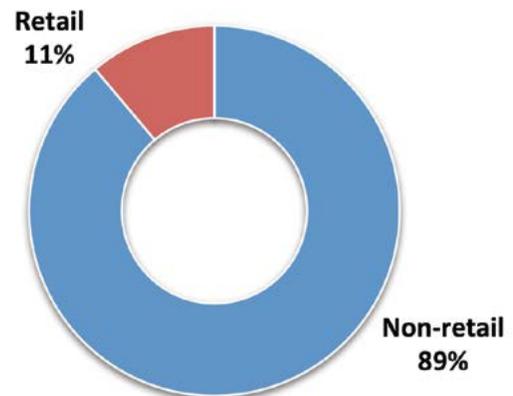
Like any sweeping economic change, the rise of e-commerce is also providing opportunity. While the Little Rock region has a smaller-than-average share of the e-commerce industry, low costs, minimal congestion, good regional transportation infrastructure, and a central location within the country are all potential advantages. The next two articles depict local e-commerce entrepreneurs who have seized the opportunity. As their stories show, there's nothing innately difficult about Internet sales. You don't have to be a coder, nor exceptionally adept with technology. Most of the same qualities needed in other businesses—hard work, creativity, integrity, smart marketing, and emphasis on quality—can bring success in a business that is growing by double digits every year. **M**



High-end and specialized stores like these found in the Promenade at Chenal are thriving. More conventional retailers are struggling.



Little Rock MSA Jobs 2016



Source: Arkansas Department of Workforce Services.



Outlet stores like these at The Outlets of Little Rock are still doing well in a shifting retail market.

## Working With Amazon at Splashwear Aquatics



Amazon prizes Splashwear Aquatics for good customer service and fast shipping. Jeannie Belew plans to hand the thriving business over to daughter Chelsea.

Jeannie Belew was a swimmer in college. For a career, with advice and financing help from a mentor, she developed Splashwear Aquatics as the primary swimming vendor in the state of Arkansas. In addition to selling traditional gear like goggles, swim-suits, swim-caps and equipment bags, Splashwear custom-designs team swim gear as a one-stop provider to swim teams.

About eight years ago Amazon contacted Splashwear about becoming a vendor. Jeannie tried it, but found the company's tools for putting items on its site labor-intensive and inefficient. Jeannie went back to business as usual, including Splashwear's own successful web site at <http://www.swimmerstuff.com>. In 2016, Amazon contacted her again. This time, the interface was simple. Staff could scan items into Amazon's system with a phone. Filling orders was simple, with minimal added work. Splashwear Aquatics became an Amazon vendor, and sales accelerated.



Splashwear has a reputation for good customer service and fast shipping turnaround, critical factors for sales success via Amazon. And while they ship via UPS and Fedex, Jeannie has found the U.S. Postal Service is its cheapest and fastest shipper. Web hits have gone from 200 a day to over one million. Amazon has offered to give Splashwear's items "Prime" status, but Jeannie says she's doing well enough and doesn't want the added stress.

While business is thriving, Jeannie worries about the prospect of taxing Internet sales. The problem is not money, it's complication. If Internet sales are pegged to the location of purchase, Internet retailers must do the paperwork and know the laws and rates for a dizzying array of overlapping counties and municipalities. Jeannie believes taxation of retail sales would put many Internet retailers out of business.

Swimming brings along greater health benefits and fewer injuries than most forms of exercise, making water aerobics a growing business. Enthusiasm for swimming, combined with adaptability, efficiency and some hard work have meant success for Splashwear Aquatics. This local firm, with three employees and based modestly in a small store-front on Maumelle Boulevard in North Little Rock, is now a leading swim gear provider in Amazon's expanding global business. **M**



The Bishop Stingrays swim team is shown here wearing Splashwear Aquatics custom suits. Photo courtesy of Jeannie Belew.

## Building Online at Cocoa Belle

For Carmen Portillo at Cocoa Belle, a sale comes in via mobile device - her smartphone and email immediately records it. The customer's information is automatically added to a steadily-growing database. Staff quickly package the order—artisan chocolates—then paste on an address label that prints out automatically. A Fedex truck comes by every evening to pick up the packages and deliver them. During the summer, when business is a little slower anyway, Carmen drives to the closest Fedex facility to drop off the chocolates, to help avoid spoilage in the heat.

Carmen started her business with a traditional store front at Little Rock's River Market hall around 2009. Recessionary conditions compelled her to close shop around 2011, but she kept the brand alive by selling high-quality chocolates to weddings, events and social gatherings. Chocolate-making became a hobby while she held down a job in another field. In 2015 she began testing the waters for e-commerce, and business began to build. She needed space for chocolate-making, and searched in Little Rock, but it was hard to find the right



Enthusiasm, energy, and the best chocolate you ever tasted are Carmen Portillo's recipe for success.



match of size, equipment, location and cost. Then a real estate agent presented her with a former restaurant property in Bryant - right off the freeway - and was willing to invest in some basic equipment to help.

Carmen and her staff make their exquisite chocolates in Bryant, using chocolate liquor, cream, and fruit puree as the main ingredients. She selected two of her three employees from the nearby Culinary Arts program at Pulaski Technical College. Carmen herself has specialized education in the making and manufacturing of chocolate from colleges in Orlando and Vancouver. She took advantage of business-starter programs available from the Delta Regional Authority and Little Rock's own Venture Center. They challenged her ideas and encouraged a creative, open-ended approach to yield results.

Today, Carmen is running a thriving business in artisan chocolates. While she still provides chocolates to retailers and for weddings and other social events, e-commerce has become her primary business. A professional coder helped develop Cocoa Belle's web site, and Carmen has learned how to bid for word space on Google's search engine. She advertises on Facebook and Pinterest, using the vital rule of marketing that the typical consumer has to see a brand six times before making a purchase. And the sales are racking up, especially from December through Valentine's Day, when work runs into overtime. **M**



For top-notch flavor, boutique chocolate requires careful preservation. This case guarantees optimal coolness and low humidity.

# McClain and Company Succeeds in Downtown Benton

In 2014 Sarah McClain was looking for a new opportunity. A fine old structure, the second-oldest brick building downtown Benton, came up for sale. Originally a saloon and saddle shop, it was promising, but needed some work. With help from her parents, Sarah purchased it and, working with business partners, she opened a store that sells upscale clothing, jewelry and other specialty items.

Three years into it the business is thriving, and the store employs ten people. It focuses on high-quality name brands, many via “protection” agreements keeping the store as the only authorized seller in Saline County. Occupying two store-fronts, the inside feels spacious. Sarah used Instagram and Facebook for her business launch, allowing zero-cost advertising. Her staff occasionally fills phone-order sales, but the bulk of business happens on-site. Sarah recognizes the trend though, and plans to go online by early 2018.

Sarah is active at boosting downtown Benton, which is making a steady comeback in one of the state’s fastest-growing counties. Parking is ample, rent and property costs are low,



and the customer base is strong. McClain and Company is a bricks-and-mortar retailer that is thriving by offering high-quality products and shopping experience in the upscale boutique end of the business. Brand-conscious customers are either very dedicated to their appearance, or really busy people who want good quality but lack shopping time. Sales, Sarah will tell you, is really education. If you believe in your product, educating your customer is the key to business success. **M**



Historic architecture and a sense of design and style are attributes of Sara McClain’s thriving business.



**McClain & Co.**  
APPAREL - GIFTS - SHOES - ACCESSORIES



Boutique owner Sara McClain has a passion for fashion.

## Saving Trouble With Online Groceries

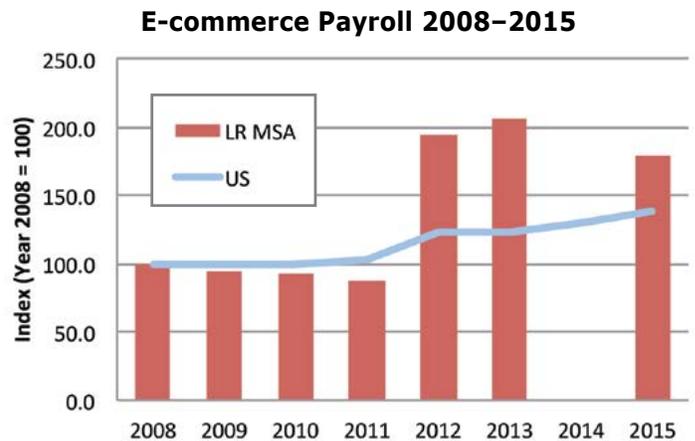


Now that Lauralee Scroggins has a baby, she's busier than ever. Going into the store with a baby is a time-consuming chore. So she uses Kroger's ClickList service. She selects the groceries online, and drives to the store at a pre-scheduled time. For \$4.95 per visit, a Kroger employee meets her and loads the car. Occasionally there is a minor problem with substitutions when the exact item requested is not available. "It saves a lot of time. It's not a perfect process, but overall well worth it to order my groceries online," Lauralee says.

Online shopping remains a fraction of grocery sales. But Kroger's ClickList service, which started in July of 2015, reached 500 stores a year ago and is still growing. The online service is less profitable than in-store sales, but is vital to keeping up with competitors like Amazon and Wal-Mart.<sup>1</sup> Nobody can foresee the exact future balance between in-store and online sales, but it makes better business sense to lead the trend than to follow it. **M**

## Stacking Up the Local E-commerce Sector

The Little Rock region is not a big player in e-commerce. In the first quarter of 2017, the region had a total of 114 jobs in NAICS sector 4541, compared with over 371,000 jobs at the national level.<sup>2</sup> At least the region has seen growth in e-commerce. The chart below compares U.S. and local e-commerce payroll since 2008. As you can see, local e-commerce payroll has grown above the U.S. average since 2011, but the local sector is small and volatile. Success stories like Cocoa Belle and Splashwear Aquatics suggest that there's plenty of growth potential based on local entrepreneurship, the region's central location within the U.S., and low costs. **M**



Source: U.S. Bureau of the Census, County Business Patterns, 2008-2015. Data for LR MSA in 2014 withheld by Census Bureau.

<sup>1</sup>Steve Watkins, "Kroger's ClickList Service Hits Milestone," *Cincinnati Business Courier* November 2, 2016.

<sup>2</sup>For data junkies only, that works out to a Location Quotient of 0.17.

# Housing Construction Climbs in Early 2017

In the first six months of 2017, the total number of new units starting construction in the Little Rock region jumped to its highest level in seven years. Multi-family construction in particular saw a big jump, with permits issued for 1,000 units. Single-family construction was about 664 units, roughly level with recent previous years.

In single-family construction the region's leader was Little Rock with 166 units, followed by Sherwood with 129. Benton and Conway ranked third and fourth, although the pace in both cities was down from the same period a year ago. Cabot was up a bit to 54 units, while all other cities saw under 50 units started during the first half of 2017. Anecdotal evidence suggests demand and price pressures from buyers are rising in single-family markets, but the pace of new construction remains well below pre-crash levels. Interest rates remain low in historic terms, but have edged up throughout 2017.

Little Rock accounted for over three-quarters of new multi-family units started in early 2017. Most of this new construction was west of I-430, aside from a few duplex units added in southwestern Little Rock and a small complex near the Shackleford Crossing shopping center. There were also new small complexes in Conway, Cabot and Benton, plus a handful of duplexes and replacement of damaged units in other locations.

Preliminary national-level data are showing that the share of homeownership, which has been declining since 2004, may have leveled off. Homeownership in Central Arkansas ticked down again in the most recent figures for 2016, but has slowed its decline. Home-owning may soon be on the rise, since older members of the Millennial generation are moving into their home-buying years. They continue showing less interest in large living spaces, and greater desire for urban proximity, but it will take years to know for sure. In any case, their finances and emerging choices will impact housing markets as those of the Baby Boom and Generation X did before them. **M**

## Half Year (January–June) Housing Unit Permits 2014–2017

### Single-Family

	2014	2015	2016	2017
Benton	96	101	92	80
Bryant	32	32	81	63
Cabot	28	45	49	54
Conway	62	83	111	72
Hot Sprgs Vill	22	37	20	18
Jacksonville	20	18	25	23
Little Rock	186	193	160	166
Maumelle	31	12	24	36
N Little Rock	31	46	52	41
Sherwood	70	74	108	129

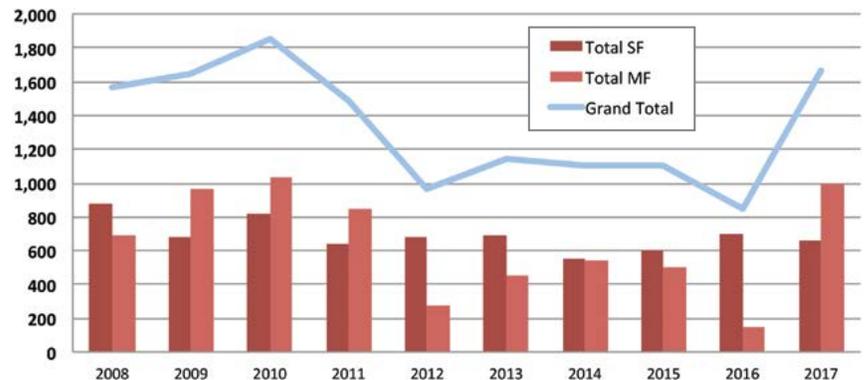
### Multi-Family

	2014	2015	2016	2017
Benton	0	0	0	52
Bryant	0	0	12	0
Cabot	0	19	0	76
Conway	61	6	44	86
Hot Sprgs Vill	0	0	0	0
Jacksonville	12	0	2	2
Little Rock	469	370	6	761
Maumelle	0	108	0	0
N Little Rock	2	0	82	15
Sherwood	0	0	0	8

### Regional Totals

	2014	2015	2016	2017
Total SF	556	604	702	664
Total MF	544	503	146	1,000
Grand Total	1,100	1,107	848	1,664

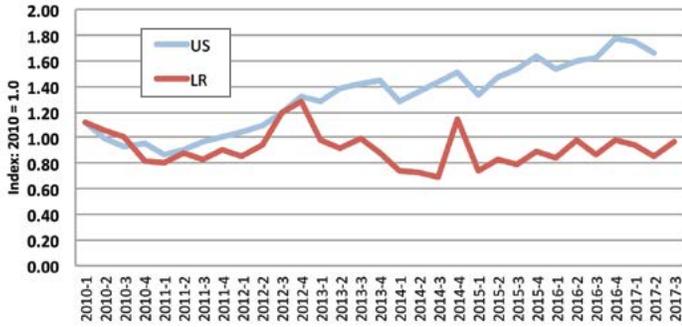
## LR-NLR-Conway Housing Unit Permits First Six Months of Each Year 2008–2017



Bryant tally for 2016 revised during value tallying 8/28/2017.

Compiled by Metroplan 7/31/17  
Revised 9/19/2017

### Quarterly Single-Family Construction Trend 2010–2017 Q3(p)

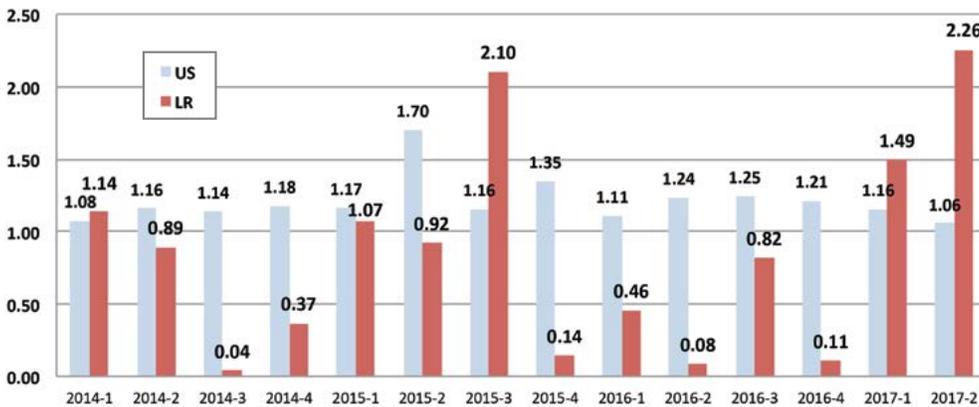


U.S. figures for 2nd Quarter 2017 are preliminary.  
Local figures for 2Q 17 final, 3Q 17 are preliminary.



These homes, in Little Rock's South Main (SOMA) area, depict a growing trend of reinvestment in the region's older neighborhoods.

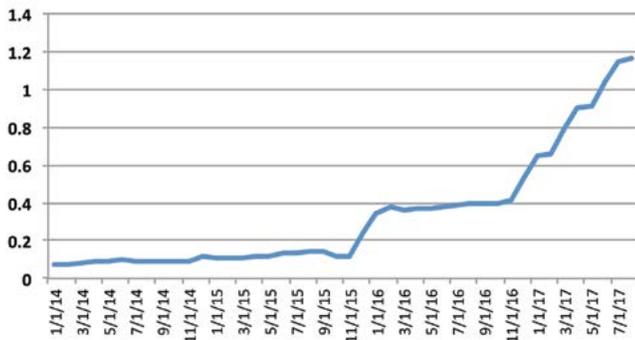
### Multi-Family Construction Index 2014–2017 2Q (seasonally adjusted)



Index based on quarterly average for years 2011–2015.  
Note: U.S. data for 2nd Qtr 2017 imputed for month of June.

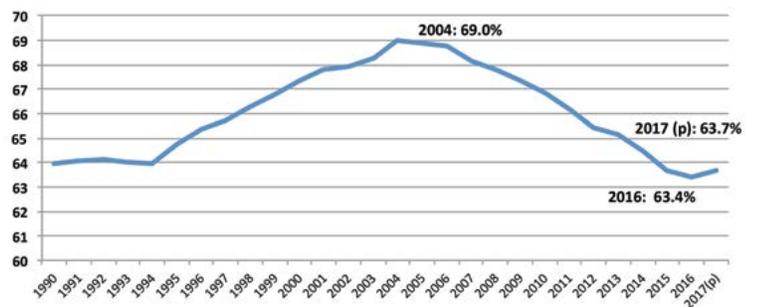
*Preliminary national-level data are showing that the share of homeownership, which has been declining since 2004, may have leveled off.*

### Federal Funds Rate January 2014–August 2017



Source: Federal Reserve Bank of St. Louis.

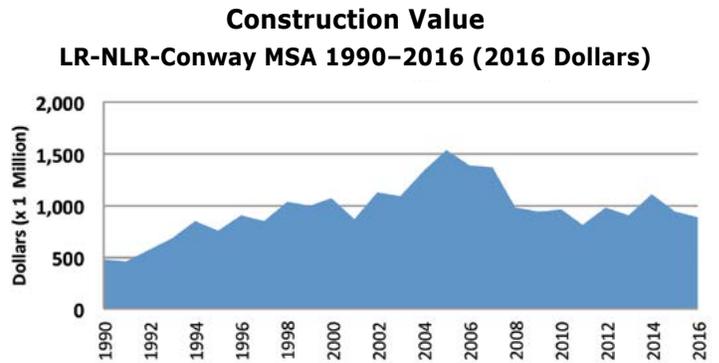
### U.S. Owner-Occupied Housing as Share of Total 1990–2017



Source: U.S. Bureau of the Census, Quarterly Housing Inventory.  
The average for 2017 is based on the first two quarters only.

# Construction Values 2016

The year 2016 saw a total construction value of \$884.8 million, down for a second year in a row. Little Rock construction tallied up to \$430 million, or about 49 percent of the regional total. Conway came in second with \$157 million, or about 18 percent of the regional total, followed by North Little Rock and Sherwood. The bulk of dollar value consisted of nonresidential construction, which accounted for 56.5 percent of the total. Homebuilding remains a smaller share of the local construction industry than it was a decade ago, before the Great Recession.



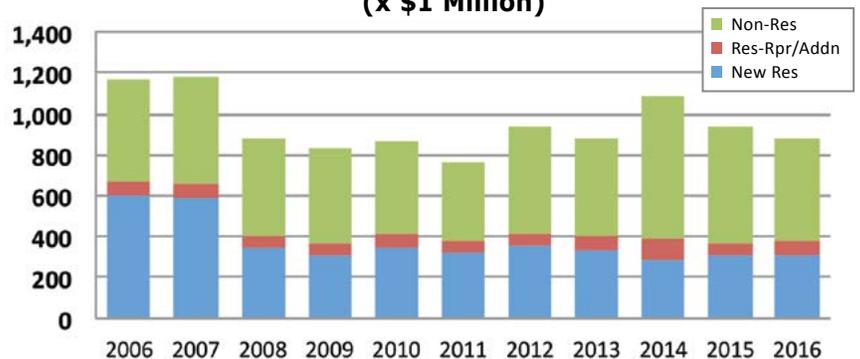
A new house goes up in Little Rock's SOMA neighborhood. From January through October 2017, nearly 10 percent of permits for new single-family homes in Little Rock were in older parts of town, east of University Avenue.

## City Construction Value Totals in 2016

Rank	City	Value (\$ Millions)	Share of Region
1	Little Rock	429.8	48.6%
2	Conway	157.0	17.7%
3	N Little Rock	70.6	8.0%
4	Benton	57.3	6.5%
5	Sherwood	50.4	5.7%
6	Bryant	40.0	4.5%
7	Maumelle	38.7	4.4%
8	Cabot	26.1	3.0%
9	Jacksonville	14.9	1.7%

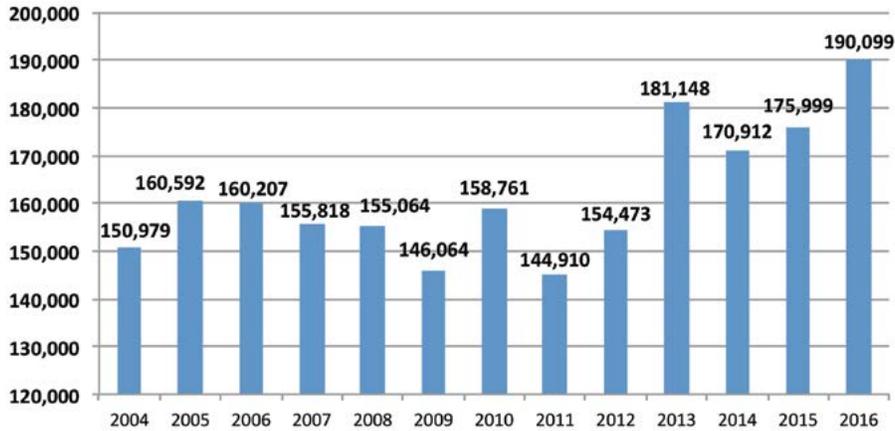
The pace of single-family housing construction was slow, but the average value of a new unit continued increasing with a median of \$190,099 in 2016, the highest yet recorded. The size of newly-built units also climbed in 2016, to a median of 2,775 square feet. The average newly-built unit for the country as a whole was a more modest 2,482 square feet. New homes in Little Rock topped the list in 2016, with a median value of \$250,000. Since Little Rock also led in the number of units built (331) this represents a growing concentration of newly-built high-value homes. Maumelle was close in median value, while Conway ranked third (\$190,000) with 208 new units. The lower-cost new units were more common along the region's northeastern axis, including Cabot, Jacksonville, North Little Rock and Sherwood. **M**

## Permit Values by Type 2006-2016 (x \$1 Million)

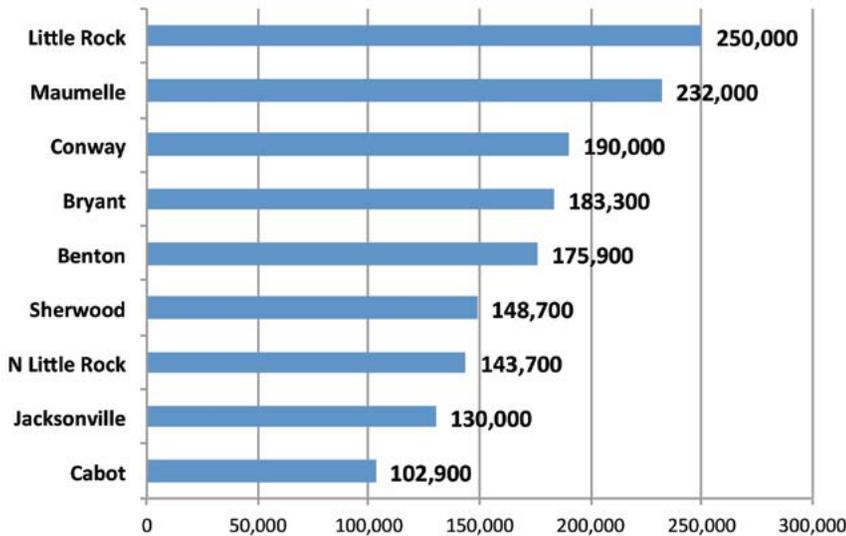


Figures represent nine largest cities in LR-NLR-Conway MSA.

### LR MSA Median New Home Value 2004–2016

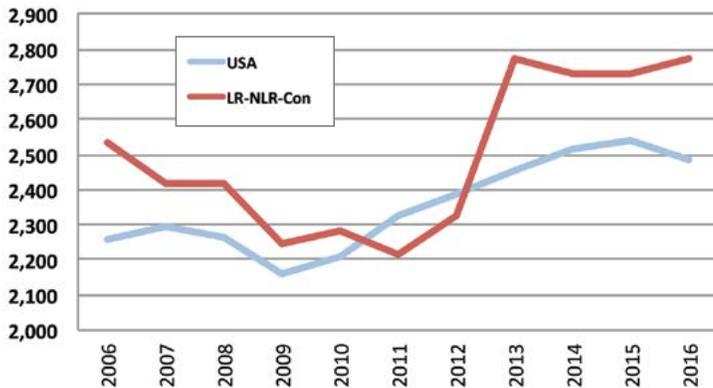


### New Single-Family Units Permit Median \$ Value 2016



Large homes on small lots. Older, smaller housing units are being demolished and replaced with larger homes like this one in Cammack Village.

### Median Square Footage of New Single-Family Homes 2006–2016



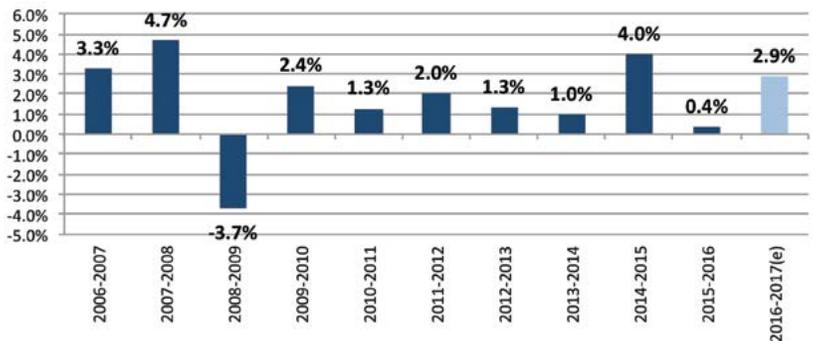
The Madison at Chenal is adding 294 up-scale units to the apartment market in western Little Rock.

# Sales Taxes and Revenues in Central Arkansas

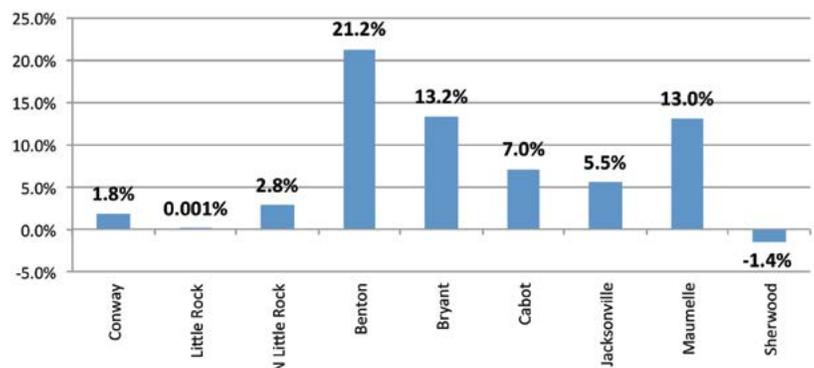
Within Central Arkansas, all of the larger cities and most counties (except Saline) have a sales tax. If you look at city and county budgets, you will see that the revenue is usually a vital part. Conway gets over 60 percent of its revenue from sales tax, while Little Rock and North Little Rock both get at least 25 percent.<sup>1</sup> If you look at retail sales though, you'll see that after inflation adjustment there has been little growth. Among the nine largest cities in Central Arkansas, only three saw sales growth of over ten percent. Slow sales growth helps explain why both Little Rock and North Little Rock asked for - and got - voter approval of rate hikes, in 2012 and 2017 respectively. Based on preliminary data through September, it looks like regional retail sales will show a small net gain in 2017. Over the longer term, governments should be cautious about revenues coming from the rapidly-changing retail sector. **M**

<sup>1</sup> North Little Rock recently passed a sales tax increase, so its sales tax share of revenue will rise well above 25 percent.

**LR MSA Retail Sales**  
Change Over Previous Year 2006-2017



**Retail Sales 2011-2016 (Inflation-Adjusted)**



## Cyber-Security: An Update

Last year's edition of this newsletter cited 2014 statistics from the U.S. Bureau of Labor Statistics that showed the Little Rock MSA as having the country's highest share of Information Security Analysts, as defined by occupation code. Unfortunately, in the latest (year 2015) update, the number of Little Rock area jobs in this sector was suppressed for reasons of confidentiality. There is little doubt, however, the region maintains a high share of activity in cyber-security. Much of the local cyber-security emphasis can be attributed to the presence



of two major electric power generation headquarters in the region.<sup>1</sup> The region holds a niche in a vital field. Successful industries tend to cluster for mutual advantage. Education and economic development institutions would therefore be well-advised to nurture the local cyber-security specialty.<sup>2</sup>

Since e-commerce retailers use analytics to understand and predict consumer behavior, privacy issues will matter more than ever. This may boost demand for cyber-security, a niche in which the Little Rock region has a demonstrated competitive edge.<sup>3</sup> **M**

<sup>1</sup> In the spring of 2017 the Little Rock region had about 1,800 jobs in this sector (NAICS 2211) with a Location Quotient of 2.55, compared with the U.S. average.

<sup>2</sup> "In the Lurch," *Economist* October 21, 2017.

<sup>3</sup> For background see the Fall, 2016 edition of this newsletter at <http://www.metroplan.org>.

# Economic Outlook 2017

With slow job growth and low unemployment, the Little Rock region's economy is stable but lacks dynamism for the moment. The e-commerce revolution has been tardy arriving in Central Arkansas, but appearances can deceive. Internet sales are up-ending the retail sector as we have known it. E-commerce is also moving into the service sector of the economy (Amazon makes movies and provides cloud-computing services, for example). Rising delivery costs could, however, act as a brake on sales growth. Nonetheless, a Euromonitor projection suggests e-commerce may account for one-sixth of all retail sales by 2021.<sup>1</sup> Metroplan offers two more conservative projections for comparison.



Local business owners know how low unemployment adds to the hiring challenge.

have lost tax revenues to e-commerce growth, Amazon's decision to allocate sales tax revenues to the location of purchase provided a minor boost in the spring of 2017.

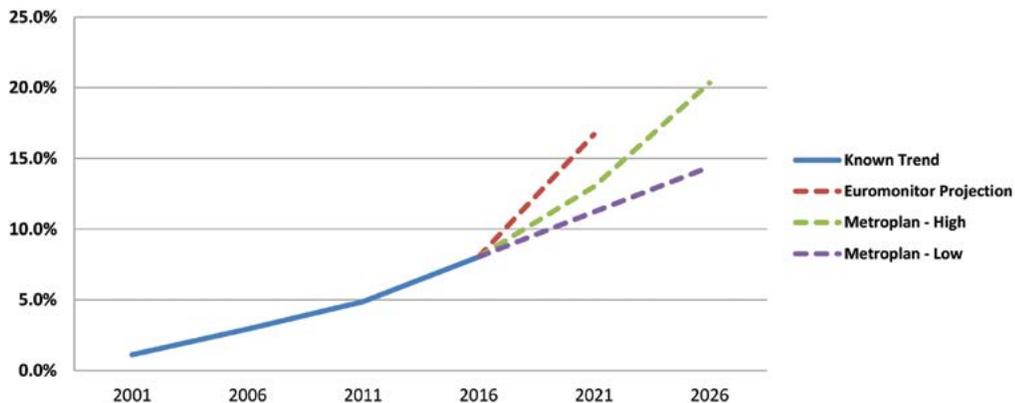
Retail disruption also opens opportunities. Since e-commerce retailers use analytics to predict consumer behavior, privacy issues will matter more than ever. This

will boost demand for cyber-security, a niche in which the Little Rock region has a demonstrated competitive edge. There will be similar spinoffs and opportunities in the data and business service sectors, which are traditional Central Arkansas strengths.

Like many regions, Central Arkansas faces potentially disruptive changes to its sizeable retail trade sector. Distinctive high-quality retailers will thrive, but large portions of the retail industry as we know it are threatened. Many acres of commercial land now devoted to shopping may need to be re-purposed within just a few years. There will be a growing risk of vacancy, and the urban decay which often follows. Where local codes are sufficiently flexible, however, there will be redevelopment opportunities on former retail sites, possibly involving multi-family housing and lower-intensity retail within mixed-use formats.<sup>2</sup> While local governments

Profiles in this report demonstrate local retailers who are successfully grasping the future amidst exponential e-commerce expansion. Their experience suggests the e-commerce market has fewer barriers to entry than commonly realized. Internet retailing is going global. China's e-commerce market is growing faster than the U.S. market, and surpassed it in size during 2016. Even in less-developed countries like India and Brazil, e-commerce now accounts for 5 percent of total sales. The potential market demand is therefore enormous, brimming with opportunity for those willing to survey customer needs and desires, and address them with common-sense aptitude for marketing and sales. **M**

**E-commerce as Share of U.S. Retail Sales:  
Known Trend 2001-2016 with Three Projections**



<sup>1</sup> "Special Report: E-commerce," *Economist* October 28, 2017.

<sup>2</sup> For further insight, see "Time for a Suburban Rebuild," *Metrotrends Economic Review and Outlook 2012* pp.6-9, at <http://www.metroplan.org>.

## Statistical Supplement

In 1998 big-box retailing was all the rage. Vast new facilities for Wal-Mart, Target, Best Buy, Staples and others had just opened in Central Arkansas. In that year’s edition of this newsletter, Metroplan pointed out that Internet shopping nonetheless had the potential to up-end the retail industry: “those huge new big boxes with their sprawling parking lots could become outdated sooner than anyone guessed.”<sup>1</sup>

Today, a growing national retail shakeout is beginning to hit the local region. Several new centers have been built, yet total retail sales are nearly flat after inflation adjustment. It’s difficult to know how the coming adjustment will hit the region. If stores start going empty, will the older ones go first, or will the newly-built centers feel the pinch? We know that, while retailing has been growing faster in the region’s outlying counties, it already accounts for a bigger share of the pie in those areas. As the table below shows, retailing accounts for about 11.8 percent of total regional jobs, but in Saline County the share is 17.8 percent - nearly one in five jobs. The share in

Faulkner and Lonoke Counties also runs higher than Pulaski, where retail jobs are just 10.7 percent of the total.<sup>2</sup> A market adjustment in retailing might therefore hit harder in outlying areas.

The chart of e-commerce sales from the early 2000s to the present shows a sawtooth pattern, in which the e-commerce share of total sales jumps every fourth quarter for holiday shopping, then declines early in the next year. Closer statistical examination shows a subtle but important trend within this pattern. From 2011 to 2016, the customary jump in sales from third quarter to fourth has diminished each year, amid an upward-curving trend of overall growth. If you look at the chart, your first impression is that the saw-tooth pattern seems to grow over time. But look at the area below the line, which represents total e-commerce sales. Then look back up, and you’ll realize the “teeth” are smaller as a portion of the total every year. This suggests e-commerce is becoming less a seasonal oddity, and more a routine shopping choice. **M**

### Retail Share of Employment by County 2016

	Total Jobs	Retail Jobs	Share of County Jobs	Share of Region's Retail Jobs
Faulkner	41,021	5,966	14.5%	14.9%
Lonoke	13,792	1,977	14.3%	4.9%
Pulaski	258,366	27,640	10.7%	69.1%
Saline	25,015	4,444	17.8%	11.1%
Region	338,192	40,027	11.8%	100%

Source: U.S. Bureau of the Census, LEHD 2016. Jobs by place of work.

### U.S. E-commerce Sales 1999 Q4–2017 Q2



No seasonal adjustment.  
Source: U.S. Bureau of the Census.

<sup>1</sup> “Shopping, Today and Tomorrow” *Metrotrends Economic Review and Outlook 1998*, p. 5.

<sup>2</sup> All figures cover jobs by place of work

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## Highlights from this Issue

- ***Regional unemployment remains low at 3.2 percent compared with 4.2 percent for the U.S. in September, 2017.***  
Page 1. Economic Update 2017
- ***Local retailing may be over-built, and a down-shift could be imminent.***  
Page 4. E-commerce, Retailing and Central Arkansas
- ***Retail accounts for the majority of commercial land use—57 percent in Pulaski County.***  
Page 5. E-commerce, Retailing and Central Arkansas
- ***Just as the loss of manufacturing jobs rocked the economy in recent decades, loss of retail jobs will cause economic pain.***  
Page 6. A Retail Metamorphosis
- ***E-commerce is altering assumptions about how goods and services are bought, delivered, and taxed.***  
Page 3. Economic Update 2017
- ***E-commerce growth may yield more empty storefronts and acres of unused parking lots within just a few years.***  
Page 5. E-commerce, Retailing and Central Arkansas
- ***The Little Rock metro area remains in a pattern of slow economic and population growth.***  
Page 1. Economic Update 2017
- ***The national decline in homeownership since 2004 may have leveled off.***  
Page 13. Housing Construction Climbs in Early 2017



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