metrotrends

An Information Service of Metroplan

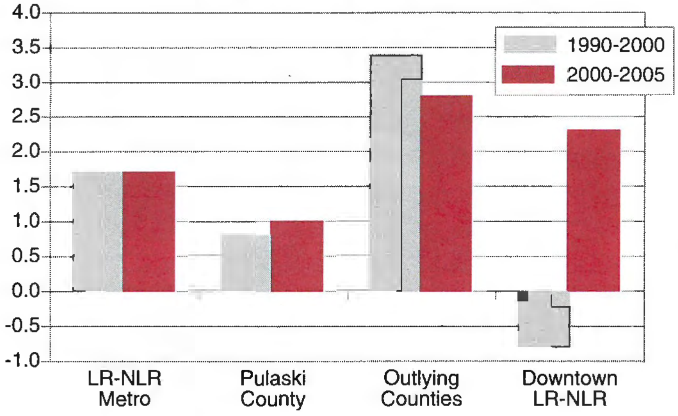
ECONOMIC REVIEW & OUTLOOK 2006

The Emerging Urban Form

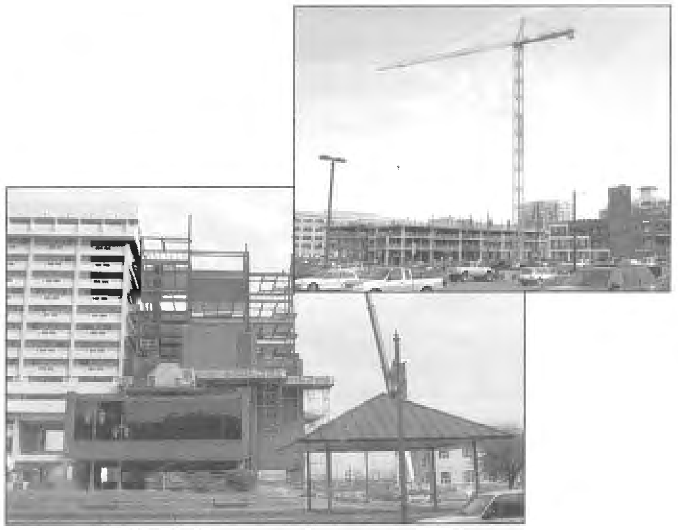
When the cranes first appeared in Little Rock's eastern downtown in the late 1990's, they were a striking oddity. Over the past decade, the cranes have returned again and again. Every year or two, a new mid-rise tower begins creeping skyward in the River Market District. The trend has now crossed the river into North Little Rock, and today there are over 700 new multifamily housing units under construction or proposed in the two downtowns, in addition to a steady stream of retail, office, and institutional projects.

Chart1

Average Annual Growth in Number of Households 1990-2005



Does all this downtown vitality reflect a reversal of decades of suburbanization? Not by a long shot. The chart above shows that the region's fastest growth is still occurring in its suburban fringes. Even within Pulaski County, the bulk of new housing growth has been in suburban locations – western Little Rock, Maumelle, eastern North Little Rock, Sherwood and Jacksonville. The new trend downtown is nonetheless a distinct reversal from the past. While it only accounts for about one percent of the six-county region's households, the downtown area gained new households at a faster rate than the metropolitan average from 2000 to 2005.[1]



Hard to imagine fifteen years ago, construction activity is now commonplace downtown

The chart on page 2 shows the trend in households in downtown Little Rock and North Little Rock from 1960 to 2005. From about 6,400 units in 1960, the area declined to about 2,300 in 1995, then began to rebound. By 2005, Metroplan estimates there were about 2,600 households in this area.

The chart also gives two projections for the area. The Metro 2030 projection, done by Metroplan in 2004, was too low. The revised projection simply adds housing units currently proposed or under construction to

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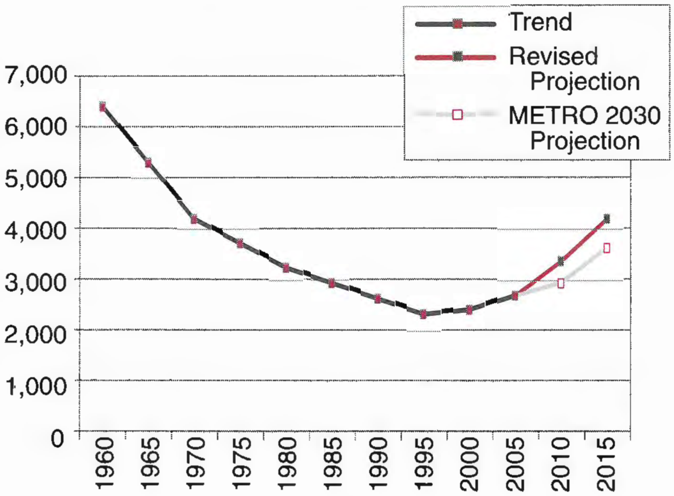
Chart 2

Downtown LR-NLR Housholds 1960-2005 with Projections to 2015



yield the figures for 2010, then adds the same amount during the five-year increment from 2010 to 2015. This methodologically conservative projection yields nearly 3,400 units by 2010 and 4,000 units by 2015. And it may turn out low also, since more projects can easily begin before 2010.

What does downtown's recent turnaround tell us about future land development trends? Urban-style living is catching on with a growing segment of the population. Changes in land development practices, zoning laws, and personal tastes are all fueling a move toward mixed-use live/work environments. Urban districts feel people-friendly again. In cases like downtown Little Rock and North Little Rock, improving park and trail amenities have made nature and the outdoors more accessible to downtown residents than they are to many suburbanites.

Elsewhere in the region, signs of land use innovations are growing. During 2006, Hendrix College announced plans to develop the Village at Hendrix, a pedestrian-friendly, mixed-use traditional neighborhood development (TND) adjacent to the college near central Conway. Additional new TND projects elsewhere in the region may soon be announced. A new lifestyle center opened in 2006 on University Avenue in midtown Little Rock. These changes, and expansions by local hospitals, businesses and universities are all signs of renewed economic vitality in older, developed portions of the central Arkansas urban region.

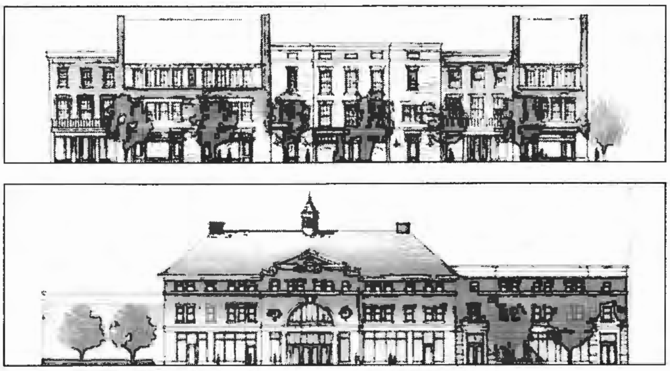
What, then, will the region's longer-term future look like?

- Suburban and exurban growth will continue. Businesses will continue chasing residential growth toward the edges. The region's fringes offer affordability advantages, [2] while local traffic congestion is not bad enough to deter long-distance commuting. Future energy prices will remain a wild card in the future of suburbanization.
- Residential growth will continue in urban and inner suburban locations. The trend may intensify and spread beyond the downtowns into other urban node locations across the region. Demographic slowing of employment growth will keep office vacancies high, making many former office locations attractive for residential retrofits.

Nature is close at hand in many parts of the downtown region

These two broad trends – continued suburbanization and renewed urban vitality – look contradictory, but they are not. Individual choices of urban, suburban, or exurban lifestyles are manifestations of a growing market trend known as micro-segmentation. Personal choices are becoming more distinct as information technologies allow individuals to pursue their own interests based more on knowledge and personal

Emerging Urban Form



These renderings depict live-work units and businesses as they may appear in Hendrix Village (images courtesy of Traditional Neighborhood Development Partners, LLC, and Hendrix College)

tastes, and less on peer-influenced outlooks and customs. The decades-long trend of creeping suburbanization and dispersion of activities continues, but is no longer the only visible urban trend. And it is not the newest trend.

Notes:

[1] The downtown area is defined here as census tracts 1, 3 and 9 in Little Rock, and tract 25 in North Little Rock.

[2] Infrastructure costs actually cancel out much of the affordability advantage in so-called "greenfield development," but these costs are usually paid by others and do not immediately accrue to the land developer or homebuyer.

A Taste for Exurban Living

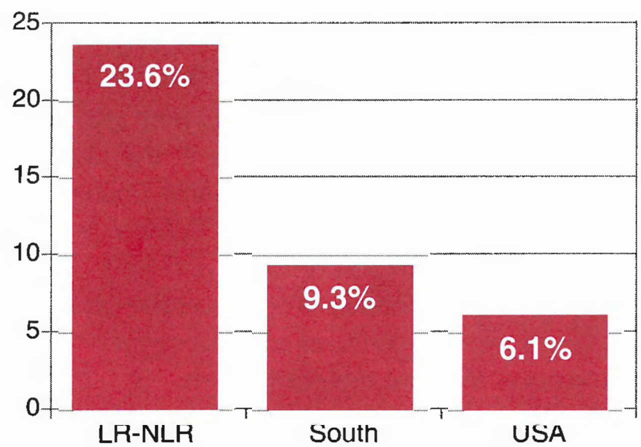
A recent Brookings Institution study ranked the Little Rock-North Little Rock Metro as having the second largest exurban population for its size among the 88 largest metropolitan areas in the United States. The Little Rock-North Little Rock Metro was one of seven areas in the country where the ratio of exurban population to total metro population was over 20 percent.[1] This is really nothing new. The central Arkansas region has always had a larger-than-average commuting shed, reflecting the traditional Arkansas affinity for rural living.

The Brookings study defined exurban areas by census tracts using a formula based on economic connections with a nearby large urbanized area, low housing density, and faster-than-average population and housing growth.[2] While exurban areas fit some common stereotypes, they defy others:

- Nearly half (47 percent) of the country's exurban population lives in the South
- The populations of exurban areas are predominantly white, middle-income homeowners
- The rate of natural increase in exurbs is generally lower than average; most population growth stems from in-migration
- The perception that exurban residents live in very large housing units is mostly wrong; the majority of exurbanites "drive to qualify" and seek housing affordability, not grandeur

Chart 3

Exurban Population in Proportion to Metro Area Population in 2000



- Average incomes in exurban areas generally run lower than in suburban, inner suburban, and urban portions of metropolitan regions
- A higher-than-average proportion of exurban workers are employed in construction and manufacturing

Notes:

[1] Exurban population includes portions living outside metropolitan areas. The Brookings study uses the 2003 metropolitan definitions; thus the LR-NLR Metro consists of six counties.

[2] The study is titled "Finding Exurbia: America's Fast-Growing Communities at the Metropolitan Fringe," by Alan Berube, Audrey Singer, Jill Wilson, and William Frey, October 2006. You can access it online at http://www.brookings.edu

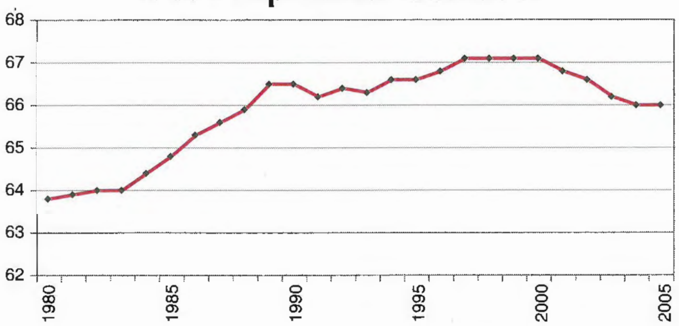
The Labor Force Challenge

Recent years have seen a vital trend emerging that is quietly affecting the national economy. The workforce is no longer growing faster than population. This lack of growth owes to two related factors: a modest recent decline in labor force participation, and aging of the working-age population.

The chart below shows U.S. labor force participation from 1980 through 2005. As you can see, from about 1997 to 2000, labor force participation stopped

Chart 4

U.S. Labor Force Participation as Percent of 16+ Population 1980-2005



its slow, dependable climb of years past and began to drop.[1] Worsening job prospects in the aftermath of the "dot-com" bubble induced some unemployed people to abandon the job market. Tightening conditions also coaxed a larger portion of potential workers, especially younger people, to opt out of the job market and attend college, graduate school or trade schools to boost their skill levels. The decline in labor force participation was a factor in the "jobless" quality of the U.S. economic recovery after the 2001 recession. Since about 2000, the country's rate of job growth has slowed compared with previous decades. Demographic factors suggest job growth will remain slow.[2]

Meanwhile, the population is aging. Today, the oldest members of the large Baby Boom generation are 60 years old; these people will reach the traditional retirement age of 65 in 2011. Each year another group of Boomers reaches the 55+ category; the last ones

> *The decline in labor force participation was a factor in the "jobless" quality of the U.S. economic recovery after the 2001 recession.*

will pass 55 in 2019. Age 55 is significant because labor force participation tends to drop off from this age onward. A lot of experienced people will soon be heading for the exits.

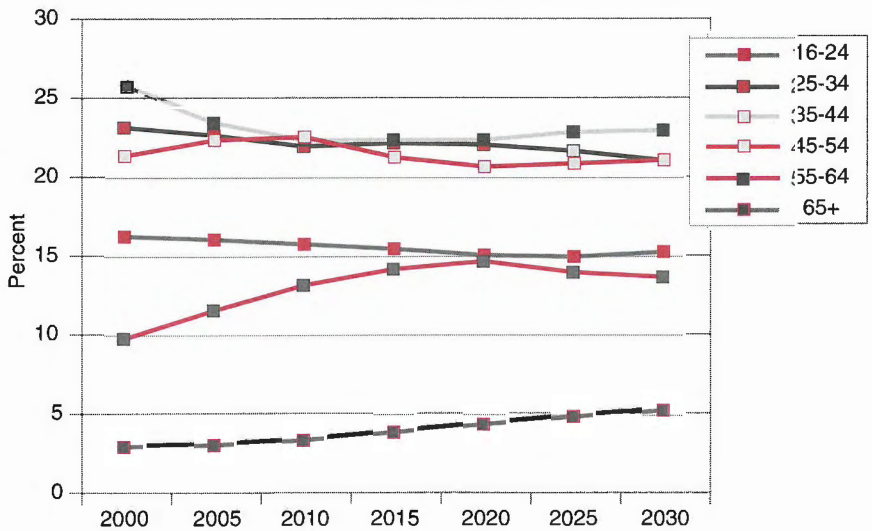
These trends are affecting the economy in central Arkansas, too. Chart 5 below shows Metroplan's projections for the share of labor force by age in the Little Rock-North Little Rock region through the year 2030.[3] While general population growth will allow all age groups to grow, several of the middle groups will diminish as a portion of the total.

The fastest decline will be in the 35-44 group, but the 25-34 group will also decline somewhat. This is critical because these were the largest age groups in the local labor force in years past. The youngest 16-24 age group will also decline slightly.

Proportional growth will only occur among workers over age 45. The fastest growth will be in the near-retirement group of workers aged 55 to 64. The share of workers over age 65 will grow somewhat, and may

Chart 5

LR-NLR Age Groups Projected as Share of Labor Force 2000-2030



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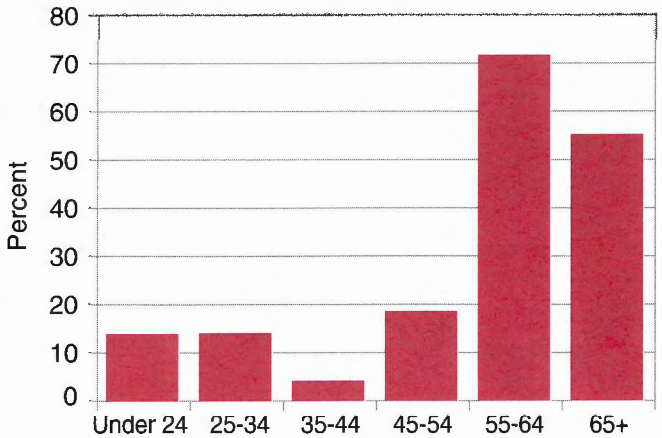
exceed the figures shown here if labor force participation continues rising among the elderly, as many labor economists believe. Yet it will be difficult for elders to take up much of the slack. Persons over 65

Chart 6

LR-NLR Projected Labor Force Growth by Age Group 2000-2015



accounted for 3 percent of the local labor force in 2000, and are only projected at 5 percent in 2030. Even a much higher participation rate would not increase the labor force by much.

In short, the economy is facing a labor shortage, nationally and locally. The biggest changes are occurring right now, in the years between 2000 and 2015. The chart above shows Metroplan projections for the absolute change in workers over this period in central Arkansas. While the overall labor force will grow 19.1 percent, all groups under age 55 will grow at slower rates.

Is there any way to verify if these projections are proving accurate? Yes. There is a new data source known as LED (Local Employment Dynamics),which tracks employment trends by age group in local areas by using federal and state administrative records.[4]

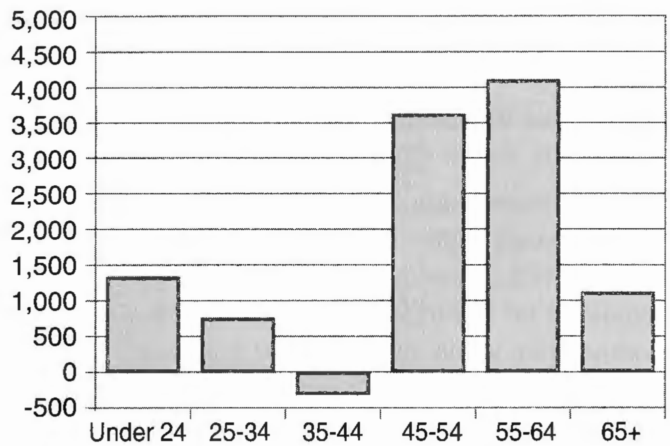
The chart at right shows LED employment-by-age data for 2003-2005. The figures for central Arkansas give only a short time window to evaluate.[5] Nonetheless, the numbers generally bear out the trends forecast by Metroplan. As you can see, the number of central Arkansas workers age 35 to 44 actually dropped over the two-year period from 2003 to 2005.

The central Arkansas region is fortunate to have a population that is slightly younger, and growing at a marginally faster pace, than the national average. Nonetheless, as the figures show, the region will share in the coming trend.

As the pool of younger workers diminishes, employers may have to put more emphasis on outsourcing and labor-saving technologies, as well as developing strategies to retain older workers. While employers may benefit from the high experience levels of their staffs, they will also have to emphasize training to keep up with the newest techniques and technologies. Employers who can master this new labor force challenge may hold a key advantage in years to come.

Chart 7

LR-NLR Actual Change in Workforce by Age 2003 (Q3)- 2005 (Q3)



Notes:

[1] The labor force participation data comes from the U.S. Bureau of Labor Statistics, at http://www.bls.gov.

[2] Mitra Toossi, "Labor Force Projections to 2014: Retiring Boomers." *Monthly Labor Review*, November 2005. Available from the Bureau of Labor Statistics web site.

[3] The figures represent the four-county MSA as defined prior to 2003: Faulkner, Lonoke, Pulaski and Saline Counties.

[4] LED stands for Local Employment Dynamics. Visit the LED website to check out the data for yourself at http://lehd.dsd.census.gov.

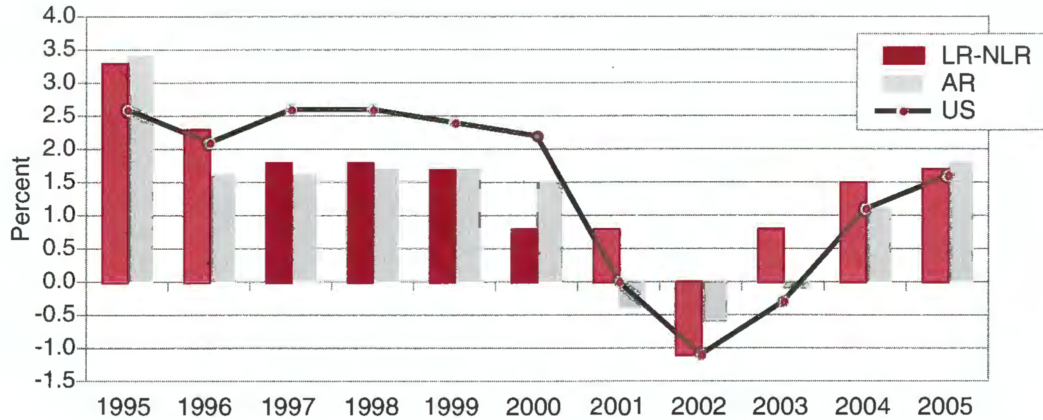
[5] Although the LED data set begins with 4th quarter, 2002, the chart above compares 3rd quarter 2003 with 3rd quarter 2005, using the same quarters to reduce the statistical impact of seasonal changes.

The Central Arkansas Economy at Mid-Decade

Nonfarm payroll jobs in central Arkansas increased by 1.7 percent from 2004 to 2005, just above U.S. average gain of 1.6 percent, and below 1.8 percent for the state of Arkansas. For the last two years, regional job run at more than double the pace of state and U.S. averages. The greatest difference occurred during the 2001-2002 employment trough, when Little Rock-North Little Rock saw only one year of loss compared with two years' decline for the U.S. and three for the state of Arkansas.

Chart 8

Annual Employment Change by Percent 1995-2005



growth has returned to the modest but steady pace seen in the region during the years 1997-1999.

Chart 9 below compares employment growth in the last five years with the previous five years.[1] As you can see, U.S., state and local growth since 2000 has remained far behind the fast pace 1995-2000 at all comparative levels of geography. Although the central Arkansas region's job growth from 2000 to 2005 was less than half as fast as from 1995 to 2000, it has

Chart 9

Job Growth by Percent 1995-2000 and 2000-2005

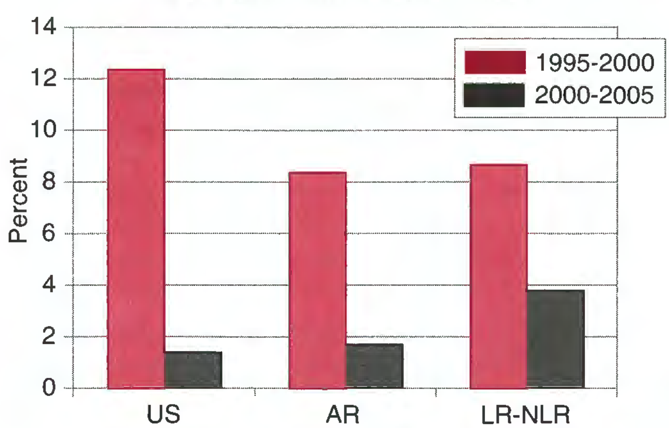


Chart 10 on the opposite page, shows the comparative unemployment trend 1995-2005.[2] The rate in central Arkansas has fallen for two years straight, and remains below U.S. and state averages. It has not yet, however, reached levels under four percent it held from 1995 to 2000, and has tracked closer to the national average in recent years.

> *The Little Rock-North Little Rock region is maintaining its historic trend of steady, dependable economic growth*

Per capita income growth slowed from 2004 to 2005, dropping below the U.S. rate of per capita income growth. However, during the period 2001-2005, regional per capita income grew substantially faster than the overall U.S. and metropolitan averages, as shown at right.[3]

The Little Rock-North Little Rock region is maintaining its historic trend of steady, dependable economic growth. While local media attention generally focuses on the faster economic growth of Northwest Arkansas, the central Arkansas region remains the state's economic powerhouse. The Little Rock-North Little Rock metro economy generates over one-quarter of all personal income in the state of Arkansas (Chart 12) and is growing jobs and income at a faster pace than the national average.

The finishing of corporate jets, seen here at Raytheon, has been a source of sustained economic growth in central Arkansas

Notes:

[1] Data for job growth represent nonfarm payroll jobs, provided by the Arkansas Department of Workforce Services.

[2] Note that the figures for unemployment represent the six-county Metro Area established by the federal OMB in 2003. The figures are from the Arkansas Department of Workforce Services. Data for nonfarm payroll jobs, by comparison, reflect the four-county MSA under the older definition.

[3] Income data from U.S. Bureau of Economic Analysis.

Chart 10

Unemployment Rate Comparison 1995-2005

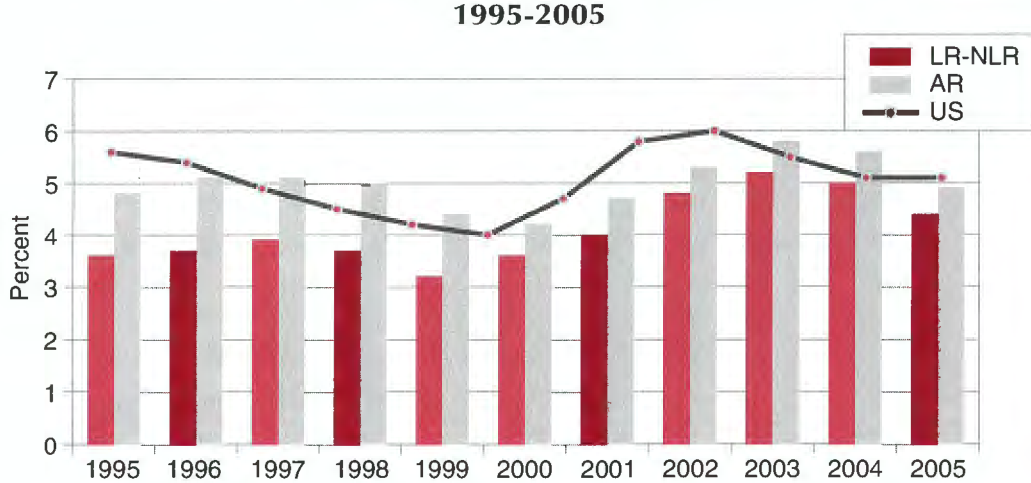


Chart 11

Change in Real Per Capita Income 2001-2005

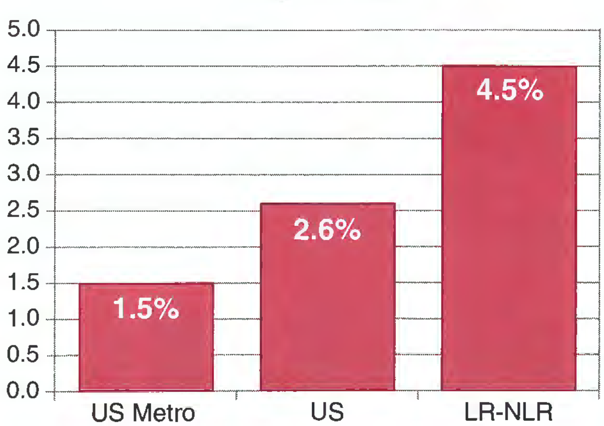
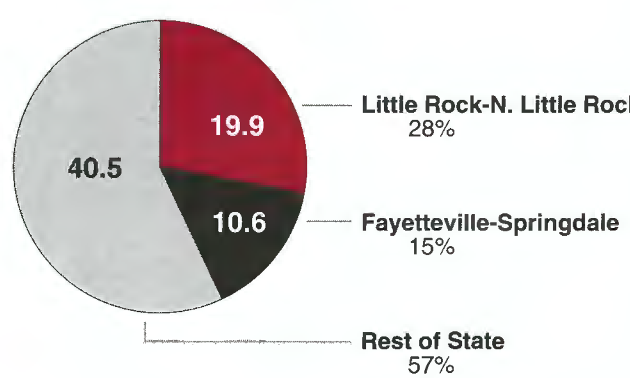


Chart 12

Arkansas Total Personal Income 2004 ($Billions)

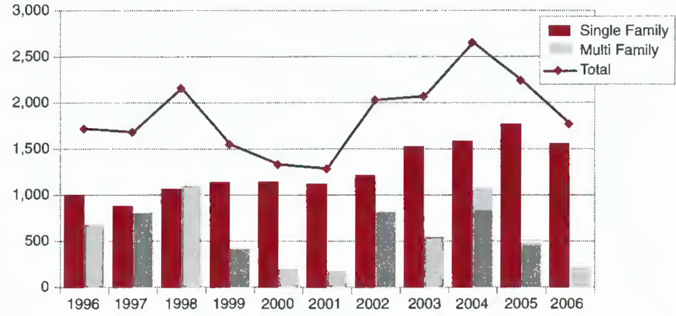


Local Housing Construction Slows in 2006

Construction boom times came to a sudden end during early 2006. The number of local housing unit permits dropped 21 percent compared with the first half of 2005. The biggest drop was in multi-family construction, which declined by over half compared with 2005. Even in single-family construction, local construction was down by over 12 percent compared with the previous year. In all cases, the region showed greater volatility than the U.S. average, showing greater growth in 2004 and 2005 than the national average, and from January to June 2006, sharper decline than the overall national trend.

Chart 13

LR-NLR Housing Unit Permits
First Six Months of Each Year 1996-2006



LR-NLR Housing Unit Permits
First Six Months of Each Year 1996-2006

Single-Family	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Benton	73	57	84	76	127	103	128	217	218	230	290
Bryant	84	63	74	86	90	110	121	92	61	91	50
Cabot	155	93	139	140	157	160	159	209	243	247	145
Conway	218	167	218	240	211	208	219	287	248	266	236
Jacksonville	43	39	38	37	41	67	41	69	90	60	63
Little Rock	263	230	265	287	283	239	276	331	390	494	441
Maumelle	112	147	145	157	139	130	141	164	149	177	136
N. Little Rock	50	37	33	43	30	38	32	37	40	61	60
Sherwood	46	46	67	71	64	64	95	120	145	144	134
Single-Family Total	1,004	879	1,063	1,137	1,142	1,119	1,212	1,526	1,584	1,770	1,555

Multi-Family	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Benton	276	0	0	5	8	24	0	0	0	0	0
Bryant	0	2	0	4	4	0	0	0	0	0	0
Cabot	5	0	0	20	0	0	144	0	14	0	130
Conway	194	184	236	67	50	17	237	39	189	72	68
Jacksonville	0	7	1	58	80	0	114	4	2	4	0
Little Rock	183	609	634	261	42	64	263	278	864	97	9
Maumelle	0	0	0	0	0	0	0	168	0	0	0
N. Little Rock	0	2	0	0	0	0	59	56	0	300	2
Sherwood	19	0	226	0	8	61	0	0	0	0	2
Multi-Family Total	677	804	1,097	415	192	166	817	545	1,069	473	211

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Housing Units	1,721	1,683	2,160	1,552	1,334	1,285	2,029	2,071	2,653	2,243	1,766
Percent Single-Family	60.7	52.2	49.2	73.3	85.6	87.1	59.7	73.7	59.7	78.9	88.1
Percent Multi-Family	39.3	47.8	50.8	26.7	14.4	12.9	40.3	26.3	40.3	21.1	11.9

Construction Value Continues Rising in 2005

During 2005, the value of construction in the LR-NLR region topped all previous records. Past years have generally followed a sawtooth pattern, with "up" years followed by "down" years, but the trend has been steadily upward since 2003. Every county except Lonoke was up in 2005 compared with 2004.[1] Faulkner County saw a pronounced surge during 2005.

Low interest rates and a prosperous regional economy undoubtedly stimulated local construction during 2005. Nonresidential construction was up 26 percent over the previous year, while residential construction was up by nearly 20 percent compared with 2004.

The region out-performed U.S. construction trends during the period 2000-2005. During this period, total LR-NLR construction value climbed 64.0 percent, while U.S. construction value rose 36.9 percent. Local single-family housing construction value more than doubled from 2000 to 2005, climbing by 131.6 percent while U.S. single-family housing rose 83.1 percent. Based on the recent construction slowdown in the first half of 2006, the construction values reached in 2005 locally and nationally are probably the peak of the cycle. Values for 2006 will almost certainly come in lower.

Note:
[1] Lonoke County values include imputations for months when values were not fully reported.

Chart 14
Building Permit Value Trends
1995-2005

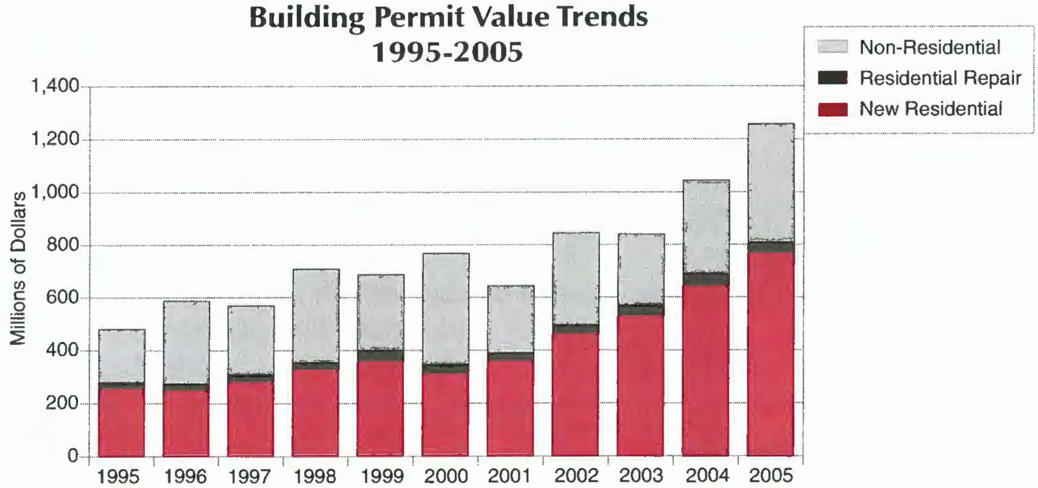
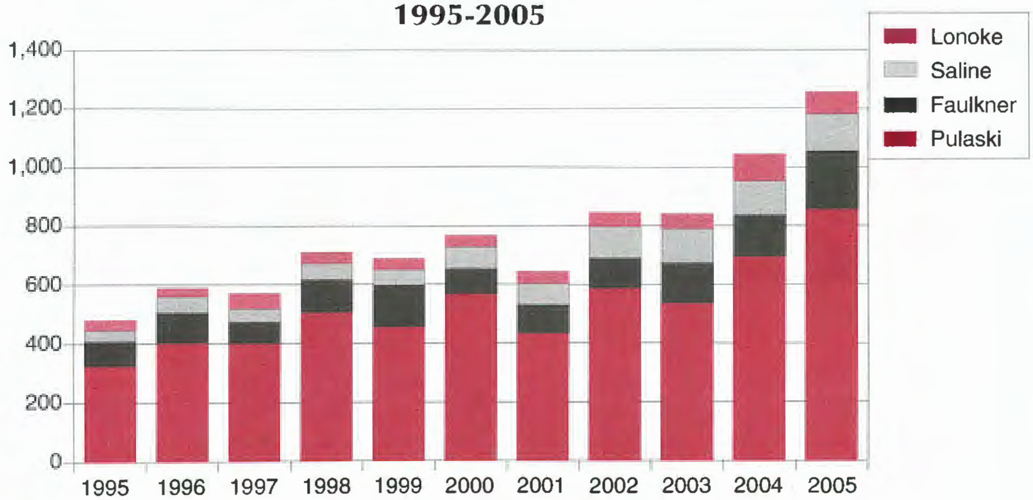


Chart 15
Total Building Permit Values by County
1995-2005



MISCELLANEOUS DATA

LR-NLR Mean and Median Single-family Permit Values 2005

Rank	City	Mean ($)	Rank	City	Median ($)
1	Little Rock	257,993	1	Maumelle	224,350
2	Maumelle	241,562	2	Little Rock	215,000
3	Conway	181,737	3	Bryant	165,000
4	Bryant	176,649	4	Conway	150,000
5	North Little Rock	162,769	5	Sherwood	150,000
6	Sherwood	156,601	6	North Little Rock	140,000
7	Benton	145,490	7	Benton	137,550
8	Cabot	140,886	8	Jacksonville	100,000
9	Jacksonville	114,672			

Building Permit Value Trends 1995-2005

	Total	New Residential	Residential Repairs & Additions	Non-Residential Repairs & Additions	Pulaski	Faulkner	Saline	Lonoke
1995	481.0	252.6	25.1	203.3	322.7	84.1	40.6	33.6
1996	587.0	246.5	27.2	313.2	400.9	102.3	56.9	26.8
1997	569.7	277.5	30.1	262.1	398.6	73.1	47.8	50.1
1998	707.8	323.9	31.2	352.7	502.0	111.9	56.3	37.7
1999	687.0	356.3	44.4	286.3	451.7	144.6	53.1	37.6
2000	766.2	307.3	38.2	420.7	564.8	86.7	76.7	38.1
2001	643.7	356.0	33.1	254.7	430.7	97.7	75.0	40.2
2002	844.7	457.7	37.6	349.5	583.9	104.3	109.1	47.4
2003	840.2	526.2	43.2	270.8	533.9	136.3	119.5	50.4
2004	1,043.7	638.1	51.0	354.6	692.6	141.3	117.4	92.4
2005	1,256.6	763.8	45.1	447.7	854.6	198.5	128.7	74.8

LR-NLR Public School Enrollments 2000-2005

Year	Faulkner	Grant	Lonoke	Perry	Pulaski	Saline
2000-01	14,362	4,688	10,697	1,844	51,782	12,201
2001-02	14,676	4,636	10,691	1,833	52,177	12,339
2002-03	14,818	4,608	10,887	1,793	51,448	12,193
2003-04	15,105	4,651	11,179	1,799	51,967	12,539
2004-05	15,466	4,748	11,507	1,723	52,181	12,796
2005-06	15,977	4,793	12,037	1,713	53,117	13,269

Source: Arkansas Department of Education

Socioeconomic Statistics

	LR-NLR MSA**	Faulkner	Grant	Lonoke	Perry	Pulaski	Saline
Average Resident Employment	324,700	50,100	8,425	29,275	4,850	186,425	45,625
%Unemployment	4.4	4.0	4.5	4.0	4.8	4.6	4.0
New Industries***	6	1	0	1	0	4	0
Expanding Industries***	6	1	1	0	0	3	1
Assessed Valuations ($)	7,531,166,808	1,022,513,337	168,505,851	593,721,227	72,916,830	4,899,809,094	1,015,123,150
Real Estate ($)	5,385,752,066	747,300,983	109,060,093	434,199,687	49,842,767	3,430,597,461	773,653,935
Personal Property ($)	1,774,864,155	247,175,520	47,229,557	124,389,885	16,272,063	1,197,031,441	206,267,308
Utility & Carrier	370,550,587	28,036,834	12,216,201	35,131,655	6,802,000	272,180,192	35,201,906
Bank Deposits ($)*	8,166,163,000	N/A	N/A	497,776,000	N/A	7,453,782,000	214,605,000
Bank Assets ($)*	6,422,174,000	N/A	N/A	401,281,000	N/A	5,846,547,000	174,346,000

Sources: Arkansas Employment Security Department, Arkansas Department of Economic Development, Arkansas Assessment Coordination Divsion, and Little Rock Regional Chamber of Commerce.

* Bank data exclude assets and deposits held by banks serving the area but based outside the four-county Little Rock-North Little Rock MSA.

** Data compiled by Metroplan for six-county LR-NLR MSA.

*** New and expanded industries as announced by the Arkansas Department of Economic Development.

ADED List of New and Expanded Industries
LR-NLR MSA 2005

NAICS 2-Digit Category		NAICS Code	SIC Code	Company	City	New or Exp	Product
22	Utilities	221121	4939	Southwest Power Pool	Maumelle	N	Management of electric transmissions
31-33	Manufacturing	322291	2676	Kimberly-Clark Corporation	Conway	E	Feminine care products
		331311	2819	Almatis, Inc.	Bauxite	E	Alumina chemical products
		332813	3471	Valley Plating Works, Inc.	Conway	N	Decorative plating on furniture
		332913	3432	Kohler Corporation	Sheridan	E	Plumbing faucets and fittings
		3363	3714	Laster & Laster Enterprises LLC	Lonoke	N	Motor vehicle parts
		336411	3721	Dassault Falcon Jet Corp.	Little Rock	E	Falcon jet aircraft
42	Wholesale Trade	42282	5182	Little Rock Distributing	N. Little Rock	E	Wine and alcoholic beverage wholesaler
49	Warehousing/Storage	49311	4225	Orbea USA LLC	N. Little Rock	N	Distribution center
54	Profess/Sci/Tech	54191	8741	Flake Wilkerson Market	Little Rock	E	Market research call center
56	Administrative/Support	56142	7389	FTD.Com, Inc.	Sherwood	N	Call center
81	Other services	813211	6732	William J. Clinton Pres. Fdn.	Little Rock	N	Non-profit corporate headquarters

Source: Arkansas Department of Economic Development; conversion from SIC to NAICS by Metroplan.

Economic Outlook 2007

The U.S. housing over-valuation bubble is finally deflating, but consequences are unclear. Since local housing appreciation ran below average during the boom, local price correction will be smaller. Central Arkansas housing occupancy has veered downward in recent years, in line with national trends and probably caused by over-building as the market softened.

Record housing and business growth will continue in Saline County into the near future, boosted by improved travel times on the recently-widened I-30 corridor. Recent increases in vehicle travel on I-30 since the widening suggest it may again be pressing capacity limits in just a handful of years.

Several new retail projects have recently opened in Pulaski County, with further additions in prospect. The growth of major retail facilities in outlying counties, coupled with only modest population growth in Pulaski County, raises questions about all this retail space in the central county. Nationally, growth in the ratio of retail space to households halted about five years ago. Retail vacancies may therefore increase in Pulaski County, especially in older centers and along aging strip development corridors that cannot serve modern consumers' one-stop preference.

A cloud looming over 2007 will be air quality. The region is close to violating federal ozone pollution limits. If violation occurs during the coming summer, expect changes in the business climate impacting industrial recruitment, and tighter federal oversight of transportation investments.

With employment growth remaining slow for demographic reasons, land use priorities may shift. The next few years could see older office and commercial spaces transitioning to different uses. There will be some risk of vacancy and decay, especially in marginal locations. On the other hand, the region's rising wave of prosperity, coupled with a growing taste for mixed-use human-scale land developments, could lead to innovative retrofits that make older areas new again.

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