DRIVING UP the COST of LIVING

How Housing and Transportation Costs Pressure Economic Development in Northwest Arkansas

July 2011

Ensuring Economic Prosperity

The regional population of Northwest Arkansas is projected to grow to 771,501 in 2025 – more than twice as many as in 2000. As new people arrive, they will purchase homes, shop at local businesses, and spark other kinds of economic activity. But if automobile-oriented development continues and gas prices increase simultaneously, the increased cost of living will erode consumer purchasing power over the long term. As Northwest Arkansas grows into a region, the key question is: How can we ensure that our growth maximizes economic development, keeps the cost of living low, and brings prosperity for all who work here?

CNT's Housing + Transportation (H+T®) Affordability Index provides a new measure of affordability that takes into account two of the largest components of the regional cost-of-living equation: housing and transportation. Calculated at the neighborhood-by-neighborhood level, the H+T Index quantifies the effect of a community's location, character, and design on the transportation costs of a household, which is a more comprehensive predictor of overall affordability.

This report examines the state of housing, transportation, and job access in Northwest Arkansas, which includes the four core cities of Bentonville, Fayetteville, Springdale, and Rogers. The analysis is supplemented by findings from 23 interviews of business leaders, elected officials, municipal staff, and local advocates. The analysis reveals that:

- It is becoming more expensive for middle class residents to live near their jobs. Apartment rents and home prices within a short distance of employment centers are affordable by a national standard but are rising quickly for the middle class.
- In 2000 households spent more on transportation than they did on housing. For every dollar of earned income, a typical household spent 26 cents on housing and 29 cents on transportation in 2000. Both costs have risen as gas prices have increased and housing has appreciated.
- Northwest Arkansas lags peer regions in combined housing and transportation affordability. Because of high transportation costs, combined housing and transportation costs are higher than in peer regions such as Huntsville, Alabama, or Lexington, Kentucky. High transportation costs offset the regional advantage in housing affordability.
- Increasing gas prices threaten regional economic development. For every dollar spent at a gas station, only 3 cents of it continues to circulate in the local economy. When gas prices rise, this chronic economic drain accelerates.

CNT recommends three policy goals to maximize regional economic development and ensure long-term prosperity for households of all levels:

1. **Rethink regional mobility.** Northwest Arkansas has a unique concentration of jobs at just a few major employers, but not many residents use transit to get to work. Ozark Regional Transit should partner with major employers to provide employees with an alternative to driving, to increase the reach and effectiveness of the transit system, and to build a constituency for public support.
2. **Align downtown investments into a regional vision.** The region should provide incentives for major investments in the downtowns of Bentonville, Fayetteville, Rogers, and Springdale that will expand opportunities to live in compact, walkable communities.
3. **Increase demand for walkability.** While many households understand housing costs, they are unaware of the total cost of transportation. Outreach to residents, developers, and lenders about the combined costs of housing and transportation will increase demand over the long term for housing that minimizes combined housing and transportation costs.

The Regional Economics of Transportation

Northwest Arkansas's recent growth has led to rapid appreciation for homes in walkable neighborhoods, especially in Fayetteville and Bentonville. The limited scope of Ozark Regional Transit service leaves most residents in automobile-oriented locations saddled with rising gas costs and few transportation alternatives. These dynamics are likely to accelerate as the region grows, siphoning millions of spending out of the local economy.

HOUSING: ECONOMIC GROWTH BRINGS RAPID CHANGE

A vibrant private sector must be able to continually attract many different kinds of skilled workers, from young professionals and students to middle-class professionals and academics. To attract the best and the brightest, Northwest Arkansas must offer the types of housing that these workers want. While the region offers a variety of homes and apartments, in-migration of professionals from more expensive markets are bringing substantial buying power with them and this threatens affordability in the most desirable neighborhoods.

All four major cities in Northwest Arkansas offer homeownership choices at different property values. Many owner-occupied units in all four cities are valued between $100,000 and $149,000, but there are hundreds of units valued at less than $100,000 or more than $400,000 in each place.[1] Springdale has somewhat fewer expensive homes than the other three. While this data reflects property values rather than recent home sales, it does suggest that neither expensive nor affordable housing appears concentrated in any one city.

Home prices have risen faster than income since 2000. According to the US Census, the median property value for a home in Northwest Arkansas rose 59 percent from $92,800 to $148,300 between 2000 and 2007. Median household income, however, grew just 3.7 percent from $44,109 in 1999 (as reported in 2000) to $45,757 in 2007.[2] According to Trulia.com, home values have typically fallen in the last three years but remain above 2003 levels. A conventional mortgage for a home purchased at the median sales price costs a new buyer $815 per month before taxes.[3]

Moderate income households can still afford homes at these values. A moderate income household in Northwest Arkansas at 80 percent of the Area Median Income (AMI) earned $36,606 in 2007. A conventional, fixed rate mortgage for a median sales price of $143,000 would cost a household 27 percent of their annual income — below the accepted affordability standard of 30 percent by policymakers, lenders, and housing advocates.[4]

However, in-migration is pressuring the mid-market. Overall, higher wage employers, such as the University of Arkansas and the Wal-Mart corporate headquarters, and low wage employers, such as Tyson Foods, have spurred a dichotomy in the housing market that limits options for the middle class. Stakeholders have suggested that in-migrants to Fayetteville and Bentonville find it easy to buy a home when moving from places like California, but existing residents can get priced out of the center of town in the process. The average home sales price in the cities of Fayetteville, Bentonville, and Rogers has typically outpaced that of Benton and Washington counties as a whole.[5]

Table 1: Owner-occupied units by property value in Northwest Arkansas cities in 2005-2009

Property Value	Bentonville		Fayetteville		Rogers		Springdale		Region	
	Units	%	Units	%	Units	%	Units	%	Units	%
Total:	7,202	100%	12,852	100%	11,759	100%	12,348	100%	93,721	100%
Below $100,000	1,196	17%	1,997	16%	2,126	18%	2,311	19%	20307	22%
$100,000 to $149,999	1,940	27%	5,057	39%	3,326	28%	4,079	33%	25233	27%
$150,000 to $174,999	786	11%	1,734	13%	1,543	13%	1,692	14%	12000	13%
$175,000 to $199,999	619	9%	1,187	9%	856	7%	838	7%	7084	8%
$200,000 to $249,999	780	11%	1,968	15%	1,218	10%	1,601	13%	10275	11%
$250,000 to $399,999	1,201	17%	2,064	16%	1,657	14%	1,343	11%	11998	13%
$400,000 and up	680	9%	842	7%	1,033	9%	484	4%	6824	7%

Niche demand exists for housing in neighborhoods with a sense of place. In-migrants from other cities sometimes shop for housing in communities like the ones they left, according to the stakeholders interviewed for this analysis. In Northwest Arkansas, these neighborhoods are often near the centers of Bentonville and Fayetteville. In Bentonville, older homes with large trees and an "authentic feel" have seen a surge in value from new migrants recruited by Wal-Mart. Listings of these properties sometimes last only days or weeks. A solid market for denser, mixed-use housing also exists in Fayetteville.

THE HIDDEN COSTS OF TRANSPORTATION

After housing, transportation is the second largest expense in a household budget. And unlike housing, transportation costs are rarely amortized in the form of a rent or mortgage. For the majority of households that drive, purchase payments, gas prices, and the costs of insurance and repairs add up quickly—and they can drain money from family budgets that would otherwise be spent at neighborhood businesses.

Long commutes are on the rise in Northwest Arkansas. In 2008, 92,747 workers lived 10 miles or less from work, while 56,420 commuted between 10 and 50 miles. While the number of workers with short commutes remained virtually unchanged since 2003, the number of workers with longer commutes rose by 17 percent. Net new job growth has resulted in longer commutes for more residents.[6]

Car ownership is high, especially for homeowners. According to the US Census, regional households owned 302,589 cars in 2007—1.9 cars for every household and 1.7 cars for every job.[7] National research by CNT has found that households in denser neighborhoods with more amenities within walking distance are more likely to own fewer cars. Car ownership represents the single biggest cost in a household transportation budget.[8]

Unlike a home, a retirement account or education, automobiles are a depreciating asset that can frustrate a family's attempt to build wealth and a better life for themselves and their children. These expenses erode a household's spending power over the long term.

Gas spending brings very little return to the local economy. According to the US 2007 Economic Census, only 3 cents of every dollar spent at the pump in 2007 continued to circulate in the regional economy. By comparison, every dollar spent at the grocery store increased regional incomes by 9 cents, every dollar spent on clothing increased incomes by 13 cents and every dollar spent at a restaurant increased incomes by 30 cents.[9]

Sudden gas price increases threaten to siphon away millions more from the local economy. In 2000, Northwest Arkansas households spent $178 million of their income for gasoline. If gas prices were to exceed $4 per gallon and transportation behavior stayed the same, regional spending on gasoline would almost triple to $500 million. This is the equivalent of a 7.3 percent ($2,727) wage decrease for the average household after taxes. Such gas price increases tighten household budgets and cut into savings for better housing, education, and retirement.

COMBINED HOUSING AND TRANSPORTATION COSTS THREATEN REGIONAL PROSPERITY

Compared to the rest of the country, Northwest Arkansas is an affordable place to buy or rent a home—but the lack of walkable neighborhoods and mobility options make it a much more expensive place to get from home to jobs, shopping, and amenities. Northwest Arkansas lags its peers in housing and transportation affordability, according to CNT's H+T Index.

Transportation costs exceed housing costs in most neighborhoods. In 2000, 8 out of 10 (98,187) households in the region lived in neighborhoods with affordable housing costs at or below 30 percent of the Area Median Income of $37,322. However, when transportation costs—including the cost of owning an automobile, insurance, and gas—are added in and the affordability threshold is increased to 45 percent, the picture changes dramatically (see fig. 1).[11]

Table 2: People and vehicles for households in occupied housing unitsin Northwest Arkansas in 2005-2009

Housing Unit	Households	People	Vehicles	People Per HH	Vehicles Per HH
All units	160,895	432,869	302,589	2.7	1.9
Owner occupied	103,345	287,623	219,063	2.8	2.1
Renter occupied	57,350	145,246	83,526	2.5	1.5

Areas in yellow in both maps represent "affordable" places to live. Areas in yellow in the map on the left are considered affordable based on the definition that housing costs should consume no more than 30 percent of AMI. Areas in yellow in the map on the right are considered affordable based on the definition that housing and transportation costs should consume no more than 45 percent of AMI.

Figure 1: Two views of affordability at regional area median income (AMI)

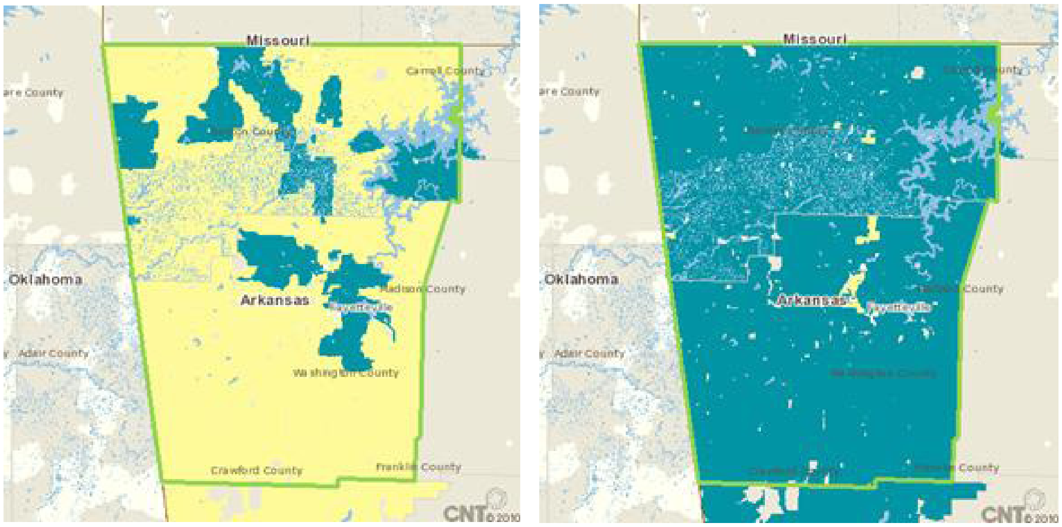
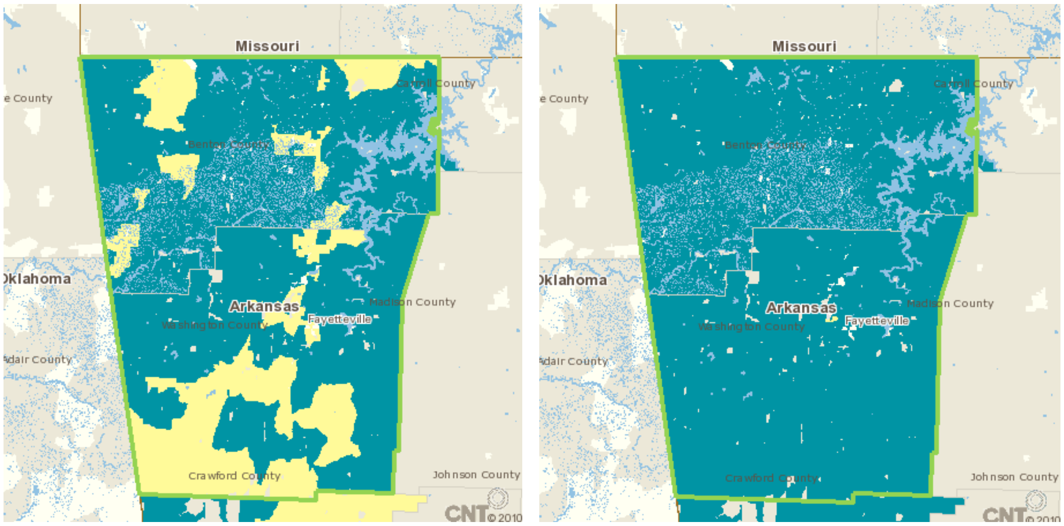
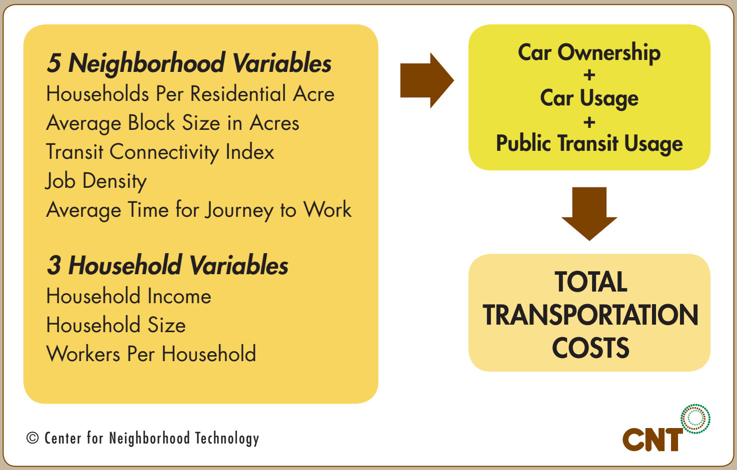


Figure 2: Two views of affordability for moderate income households at 80% of AMI



The Housing and Transportation (H+T®) Affordability Index uses six neighborhood characteristics and three household characteristics as independent variables to predict, at a neighborhood level (Census block group), three dependent variables—auto ownership, auto use, and public transit usage – that determine total household transportation costs.

Traditionally, a home is considered affordable if it consumes no more than 30 percent of a family's income. By combining a household's two largest costs—housing and transportation—the H+T Index provides an expanded, more accurate view of affordability, one defined as housing and transportation costs consuming no more than 45 percent of household income.



While the typical household in Northwest Arkansas spent on average 26 percent of their income on housing in 2000, they spent 29 percent on transportation. More than 55 percent of income was devoted to just these two costs. Only one out of nine (14,931) households lived in neighborhoods with combined average H+T costs below 45 percent of household income, mostly in Fayetteville.

Pockets of affordability exist in all four city centers. Bentonville, Fayetteville, Rogers, and Springdale all have pockets in and around their city centers where the combined costs of housing and transportation are less than 45 percent of area median income. These four downtowns are the most walkable and amenity-rich areas in Northwest Arkansas, with WalkScore ratings that range from 77 to 85 (on a scale of 1 to 100).[12]

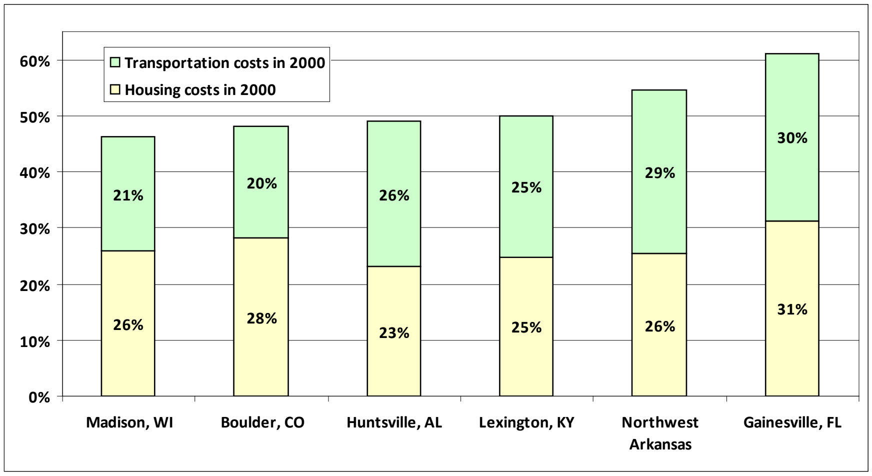
Moderate income families are especially vulnerable to transportation costs. For a typical moderate income household in Northwest Arkansas earning $29,857 in 2000 (80 percent of AMI), only three neighborhoods have combined average H+T Index costs below 45 percent. All three are in the city of Fayetteville. A total of 1,205 households lived in these neighborhoods in 2000.

Fayetteville lags peer regions in combined housing and transportation affordability. As part of the Greater Northwest Arkansas Development Strategy effort, regional leaders identified Gainesville, Florida, Huntsville, Alabama, and Lexington, Kentucky, as peer regions to benchmark success. Boulder, Colorado, and Madison, Wisconsin, have been added to this analysis as comparable regions in the West and Midwest that are also anchored by major universities.

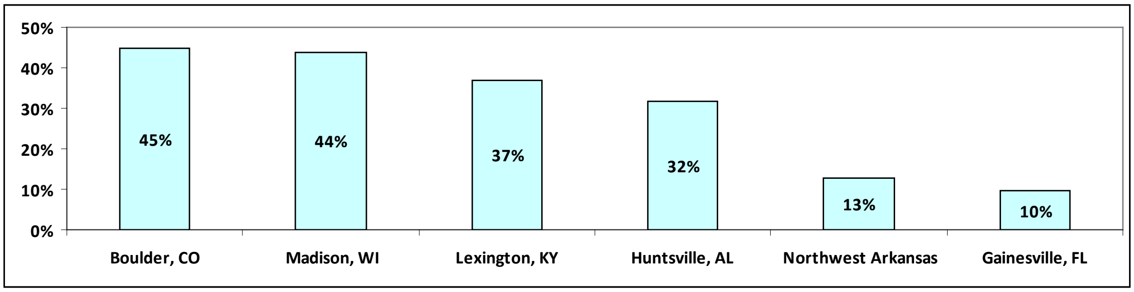
In 2000, regional housing costs as a share of AMI in Northwest Arkansas were higher than those of Huntsville and Lexington, were roughly equivalent to those of Madison, and were lower than those of Boulder and Gainesville. However, due to higher transportation costs, the average combined housing and transportation cost for neighborhoods in Northwest Arkansas exceeded the average combined costs of its peer regions, except for Gainesville.

There are fewer affordable neighborhoods than in peer regions. Only one out of every eight households in Northwest Arkansas lives in a neighborhood with average H+T Index costs below 45percent of AMI. In Lexington and Huntsville, by contrast, one out of three lives in an affordable neighborhood. The number is even higher in Boulder and Madison.

Average Housing and Transportation Costs As a Share of Area Median Income (AMI) in 2000 by Selected Region



Percentage of Households in Affordable H+T Neighborhoods in 2000 by Selected Region



Three Strategies for Regional Growth

Northwest Arkansas remains an affordable place to buy or rent a home. However, as the distance between jobs, residents, and amenities grows, households will spend more on cars and gasoline and less in the local economy. Automobiles depreciate over time and erode a family's ability to build wealth and make long term investments. Money spent on gas brings little return in economic growth and job creation. If residents can reduce their driving by just 10 percent at current gas prices, it would release an additional $50 million in spending power into the local economy—an amount that will grow as new households arrive and energy prices rise.

To maximize economic development and ensure long-term prosperity for households of all levels, CNT recommends three policy goals for regional growth:

1. **Rethink regional mobility.** Northwest Arkansas has a unique concentration of jobs at just a few major employers, but not many residents use transit to get to work. Ozark Regional Transit should partner with major employers to provide employees with an alternative to driving, to increase the reach and effectiveness of the transit system, and to build a constituency for public support.

2. **Align downtown investments into a regional vision.** The region should provide incentives for major investments in the downtowns of Bentonville, Fayetteville, Rogers, and Springdale that will expand opportunities to live in compact, walkable communities.

3. **Increase demand for walkability.** While many households understand housing costs, they are unaware of the total cost of transportation. Outreach to residents, developers, and lenders about the combined costs of housing and transportation will increase demand over the long term for housing that minimizes combined housing and transportation costs.

These strategies require a collaborative approach among stakeholders. Significant progress has occurred in regional thinking over the last decade. While there are still points of conflict and competition, the mayors and staffs of the region's major cities have a shared understanding that their destinies are linked and that no individual municipality can prosper at the expense of the others. The Razorback Regional Greenway is a good example; the commitment to completing this trail system is high, whether or not federal funding is available. The Greenway is seen as a significant quality of life asset, as well as a symbol of how the municipalities can connect with each other for the benefit of the whole region.

Rethinking Regional Mobility

The most important short term strategic priority is to transform Ozark Regional Transit (ORT) into a trusted and credible provider of regional transit services with a stable and adequate funding base. ORT's impending loss of federal operating support is a critical turning point for the agency. After 20 years of daily service, it serves a modest number of riders, few of whom use ORT to get to work.ORT continues to be the region's second largest transit system, after Razorback Transit operated by the University of Arkansas. To reduce transportation costs, ORT needs to refocus on serving working families and consider a merger with Razorback Transit.

Approximately one in four of the region's 176,309 jobs are concentrated in just four employers:

- Wal-Mart employs approximately 30,000 workers.
- Tyson Foods employs approximately 7,000.
- J.B. Hunt Transport Services employs more than 2,000 at its headquarters alone.
- The University of Arkansas employs 7,000 faculty, staff, and student employees.

This concentration of employment brings two important benefits for transit:

1) it offers natural "employment centers" around which to organize the transit system; and
2) it produces political stakeholders with concentrated economic clout to advocate on behalf of a system.

Employers have a clear economic interest in a high quality regional transit system. The rising cost of transportation has three impacts: it increases wage pressures; it lowers employee productivity and morale (because it represents an effective wage decrease); and it increases the turnover rate for entry-level employees.

A more robust regional mobility system needs to be developed in stages. While many public transit advocates want to jump immediately to light rail, support for more sophisticated forms of transit like light rail needs to be built on the success of the regional bus system. As users and employers experience the benefits and gain confidence in the capabilities of the existing transit system, they will, over time, be more inclined to consider more ambitious solutions. Put simply, public transit needs to "earn its way" into regional priorities.

There is significant regional support for an effective public transit system, but this support is muted in many cases. ORT is perceived as an underperforming mobility system and lacks a strong constituency among primary stakeholders, especially potential customers in the business community. During CNT's in-person visits with leaders and stakeholders in Northwest Arkansas, most participants noted a repeated lack of strategic planning in growing the local transit system:

- ORT is perceived as bureaucratic, not entrepreneurial or strategic, and not operationally sophisticated in terms of route planning and management.
- ORT has not yet developed strong strategic relationships with large regional employers, who should be among its primary stakeholders and customers. Employers reached out to them as during the last large spike in gas prices but were unable to develop a customized solution for mobility options for employees.
- ORT and Razorback Transit should develop a stronger interrelationship.
- ORT has not yet effectively communicated the rationale for, and benefits of, the substantial increase in public funding that it is seeking through the sales tax referendum.

Transit still lacks a strong constituency in Northwest Arkansas among key stakeholders and the voting public at large. As a result, Benton County will likely decline to put the proposed transit tax referendum on its ballot. Electoral success in Washington County is uncertain.

Having a high quality, high performance ORT that has deep customer and partner loyalty is critical to robust and varied long term mobility options for the region. ORT should consider partnering with major employers to build more trust with key stakeholders in the business community and increase the visibility for the transit system at large. Over time, this trust will translate into increased support and consensus from regional leaders for initiatives such as the tax referendum. The transit system is at an important transition point. If regional leadership does not manage this challenges and opportunity effectively, regional public transit could be set back for many years.

Align Downtown Investments into a Regional Vision

Exciting things are happening in the historic downtowns of Northwest Arkansas. In Bentonville, the Walton Family Foundation has funded the construction of the Crystal Bridges Museum, which will bring more visitors to downtown Bentonville and spark new real estate development in the process. The City of Fayetteville has seen new mixed-use construction conforming to its form-based code. Fayetteville also recently convinced its school board to build a new high school in the city center, rather than away from downtown. Springdale has developed plans to redevelop Shiloh Square into a meeting place and the focal point of its downtown. And downtown Rogers continues to grow its vibrant retail center.

The Razorback Regional Greenway is expected to add value to all of these planned investments. The Crystal Bridges Museum campus includes a trailhead. The Springdale planning staff believes that the trail will augment their downtown planning efforts. In Fayetteville, where a significant segment of the Greenway has already been constructed, vacancies in nearby buildings have decreased.

These investments should net the economy of Northwest Arkansas significant returns over the long run. Skilled workers with options about where to live increasingly compare the amenity mix of locations as they choose between jobs. Over the last nine years, younger "knowledge workers" with college degrees have been locating disproportionately in neighborhoods near city centers.[13] Market research suggests that as many as a third of Americans born after 1980 – the next generation of homeowners – will pay more to live in neighborhoods where they can walk to work, shopping and amenities.[14] The University of Arkansas can serve as a powerful magnet of young talent for Northwest Arkansas, if the region offers neighborhoods where students want to live after they graduate.

Though walkable neighborhoods are generally in short supply, the region has an excellent opportunity at the regional level to incrementally support its existing downtown plans and investments. A regional vision for downtown development would require new regulations on land use, which is seen largely as a local concern. Rather, the Northwest Arkansas Regional Planning Commission (NWARPC) should augment planning efforts around downtowns and the Razorback Regional Greenway through small scale infrastructure investments. This will help communities better leverage their existing planning efforts around new development.

Under a regional Livable Communities Initiative funded through programmed federal transportation dollars, NWARPC could award capital grants for neighborhood planning projects that make it easier to get around by foot or by bike. This could include better sidewalks, new bike lanes, bike parking facilities and showers, way-finding signage, parking spaces for shared vehicles, or any needed upgrades to water and sewer infrastructure needed for higher density development.

Models for such a program exist in other metropolitan regions and could be scaled and customized to fit Northwest Arkansas. The Atlanta Regional Commission and Cleveland's Northwest Ohio Area Coordinating Agency both fund projects through the Livable Communities Initiative using their appropriation of federal Surface Transportation Program funding. These programs require board approval; awards to grantees are published in each metropolitan planning organization's Transportation Improvement Program (TIP).

Through the Livable Communities Initiative, NWARPC could invest existing federal funds to enhance mobility by creating walkable neighborhoods, augment existing planning efforts for which there is local and institutional support, and create economic return through reduced transportation spending and enhanced workforce recruitment.

Increase Demand for Walkability

While the first two policy strategies largely focus on increasing transportation choices and the number of compact communities in Northwest Arkansas, local leaders can also implement demand-side initiatives to build support for transit and livable communities from different constituencies.

The full cost of transportation is not clear to most households, no matter where they live. Unlike a mortgage or rent, household transportation expenses are made up of multiple elements—insurance, repairs, depreciation, and gas—which are paid in different ways and at different times. Gas costs also fluctuate with the global price of oil. As CNT's H+T Index demonstrates, transportation costs vary greatly by location. Households that better understand the total cost of transportation will make better informed housing and mobility decisions. Informed households may also be more likely to support a tax increase for the continuation and expansion of ORT service.

CNT has developed a web-based tool called Abogo (www.abogo.cnt.org) that discloses the average cost of transportation for a typical household neighborhood by neighborhood.CNT recommends that the NWARC and the housing authorities in each city sponsor community workshops on the impact of transportation choices, using Abogo and other tools to help residents better understand mobility costs and the benefits of living in walkable, amenity-rich communities.

A lack of awareness about compact communities and mixed-use development also limits the amount of capital available to construct them. This type of development can be more complex to finance and insure. Because lenders may see mixed-use development as more risky than conventional deals, developers must commit more equity and pay a higher interest rate to complete them. With greater experience and expertise, however, these impediments to walkable communities are likely to diminish, and developers will have a greater ability to build them at scale. For this reason, education to lenders on the financials of mixed-use developments would be of tremendous value. This type of development will increase the diversity of living environments in the region and help businesses recruit and retain a skilled workforce.

Priority for Action

Given the urgency of ORT's fiscal situation, the enhancement of regional mobility through improved public transit should be the priority for the region as it faces the challenge of reducing combined housing and transportation costs. In the short term, this requires a viable funding stream for ORT and better commuting options for workers at the region's major employers. Over the medium term, improved bus transit will build trust and buy-in for a broader set of transportation strategies, such as light rail.

The benefits of a Livable Communities Initiative and outreach and education will accrue over a longer time frame in the form of new development, increased demand for compact housing, and a region more attractive for younger skilled workers.

Endnotes

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10 A neighborhood is defined as a US Census block group.

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About the Center for Neighborhood Technology

The Center for Neighborhood Technology (CNT) is an award-winning innovations laboratory for urban sustainability. Since 1978, CNT has been working to show urban communities in Chicago and across the country how to develop more sustainably. CNT promotes the better and more efficient use of the undervalued resources and inherent advantages of the built and natural systems that comprise the urban environment.

As a creative think-and-do tank, we research, promote, and implement innovative solutions to improve the economy and the environment; make good use of existing resources and community assets; restore the health of natural systems and increase the wealth and well-being of people—now and in the future. CNT's unique approach combines cutting edge research and analysis, public policy advocacy, the creation of web-based information tools for transparency and accountability, and the advancement of economic development social ventures to address those problems in innovative ways.

CNT works in four areas: transportation and community development, natural resources, energy and climate. CNT has two affiliates, I-GO™ Car Sharing and CNT Energy.

CNT is a recipient of the 2009 MacArthur Award for Creative and Effective Institutions.

More information about CNT is available at www.cnt.org.