Analysis of the LITTLE ROCK, ARKANSAS HOUSING MARKET

as of March 1, 1970

A Report by the
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
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FHA Housing Market Analysis

Little Rock, Arkansas, as of March 1, 1970

Foreword

This analysis has been prepared for the assistance and guidance of the Federal Housing Administration in its operations. The factual information, findings, and conclusions may be useful also to builders, mortgagees, and others concerned with local housing problems and trends. The analysis does not purport to make determinations with respect to the acceptability of any particular mortgage insurance proposals that may be under consideration in the subject locality.

The factual framework for this analysis was developed by the Economic and Market Analysis Division as thoroughly as possible on the basis of information available on the "as of" date from both local and national sources. Of course, estimates and judgments made on the basis of information available on the "as of" date may be modified considerably by subsequent market developments.

The prospective demand or occupancy potentials expressed in the analysis are based upon an evaluation of the factors available on the "as of" date. They cannot be construed as forecasts of building activity; rather, they express the prospective housing production which would maintain a reasonable balance in demand-supply relationships under conditions analyzed for the "as of" date.

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Washington, D. C.

FHA HOUSING MARKET ANALYSIS - LITTLE ROCK, ARKANSAS AS OF MARCH 1, 1970[1]

The Little Rock, Arkansas, Housing Market Area (HMA) is defined as Pulaski County, Arkansas. Although the Standard Metropolitan Statistical Area also includes Saline County, the housing market area is confined to Pulaski County.[2] On March 1, 1970, the nonfarm population of the HMA was estimated at 313,400.

Substantial employment gains have occurred in both the manufacturing and the nonmanufacturing sectors of the Little Rock economy; during the past two years, government, trade, services, and manufacturing accounted for the largest shares of this economic growth. The rate of in-migration has declined since 1968, but employment opportunities continue to attract new households, particularly in the under twenty-five age group. Production of new single family housing, stimulated by household growth, has approximated the absorptive capacity of the market; however, an increasingly greater demand for new multifamily units remains to be satisfied.

Anticipated Demand for Nonsubsidized Housing

Based on the expected growth in the number of households and the need to replace units to be lost from the inventory, it is estimated that 2,100 new nonsubsidized housing units could be absorbed annually in the Little Rock HMA during the two-year forecast period ending March 1, 1972; an additional 200 units of demand are expected to be met annually with mobile homes. The demand estimates reflect adjustments for a reasonable level of vacancies and residential construction. On the basis of these considerations

1/ Data in this analysis are supplementary to a previous FHA analysis of the area as of January 1, 1968.

2/ Generally, housing units in Saline County do not compete with units in Pulaski County.

and barring unanticipated changes in economic, demographic, or housing factors incorporated in this analysis, the most desirable demand-supply balance would be achieved with the annual construction of 1,600 single family houses and 500 multifamily units (for distributions of demand by sales prices and monthly gross rents, see table I). The demand estimates are not intended to be a prediction of short-term construction, but rather suggestive of levels of construction designed to provide stability in the housing market based on long-term trends evident in the area.

Occupancy Potential for Subsidized Housing

Federal assistance in financing costs of new or existing housing for low- or moderate-income families may be provided through a number of different programs administered by FHA: monthly rent supplements in rental projects financed with market-interest-rate mortgages under Section 221(d)(3); partial payment of interest on home mortgages insured under Section 235; partial interest payment on project mortgages insured under Section 236; and federal assistance to local housing authorities for low-rent public housing.

The estimated occupancy potentials[1/] for subsidized housing are designed to determine, for each program, (1) the number of families and individuals who can be served under these programs and (2) the proportion of these households that can reasonably be expected to seek new subsidized housing during the two-year forecast period.[2/] Household eligibility for the Section 235 and Section 236 programs is determined primarily by evidence that household or family income is below established limits but sufficient to pay the minimum achievable rent or monthly payment for the specified program. For public housing and rent supplement, all families and individuals with incomes below the income limits are assumed to be eligible. Some families may be alternatively eligible for assistance under one or more of these programs or under other assistance programs using federal or state support. The total occupancy potential for federally-assisted housing is equal to approximately the sum of the potentials for public housing and Section 236 housing, exclusively, plus the potential common to both programs. For the Little Rock HMA, the total occupancy potential is estimated to be 1,150 units annually (see table II). Future approvals under each program should take into account any intervening approvals under other programs which serve the same families and individuals.

1/ The occupancy potentials referred to in this analysis have been calculated to reflect the strength of the market in view of existing vacancy. The successful attainment of the calculated potentials for subsidized housing may well depend upon construction in suitably accessible locations, as well as distribution of rents and sales prices over the complete range attainable for housing under the specified programs.

2/ Little or no housing has been provided under some of the subsidized housing programs and absorption rates remain to be tested.

<u>Sales Housing under Section 235</u>. Sales housing can be provided for low- to moderate-income families under the provisions of Section 235. Based on the exception income limits, approximately 360 houses a year could be absorbed in the HMA during the two-year forecast period; using regular income limits, the potential would be reduced to about 250 units annually. One-third of the families eligible under this program are five-or-more-person households which may require a minimum of four bedrooms. A few houses already have been built under this program and there are preliminary reservations for nearly 200 units. All families eligible for Section 235 housing also are eligible under Section 236.

<u>Rental Units under the Public Housing and Rent Supplement Programs</u>. These two programs serve essentially the same low-income households. The principal differences arise from the manner in which net income is computed for each program and other eligibility requirements such as personal asset limitations. The annual occupancy potential for public housing is an estimated 450 units for families and 350 units for the elderly. Approximately 10 percent of the families and 30 percent of the elderly also are eligible for housing under Section 236 (see table II). In the case of the more restrictive rent supplement program, the potential for families would be somewhat less than under public housing but the market for elderly accommodations would remain comparatively unchanged.

To date, there are 1,900 public housing units under management in the HMA, including 280 units for elderly occupancy. There are no residency requirements in either the Little Rock or the North Little Rock housing regulations and both authorities are holding applications from families and individuals residing outside the HMA. The absence of a residency requirement appears to cause only a moderate expansion of the potential for families eligible for public low-rent or rent supplement housing. The market for elderly accommodations, however, is considerably enlarged, principally because of the excellent medical facilities in the Little Rock vicinity. No adjustment has been made to reflect these expanded markets. The only specifically designed rent supplement housing in the HMA is a 196-unit project--fully occupied--sponsored by Shorter Junior College.. Units in this project, built primarily for families, have been marketed very satisfactorily.

An additional 220 public housing units for the elderly are under construction in North Little Rock and 600 such units have been approved by HUD for the city of Little Rock. These 820 accommodations will satisfy only the first year potential for elderly low-rent housing in the HMA. However, the 350 units of rent supplement housing for families either under consideration, designated feasible, or for which conditional commitments have been issued, conform closely to the anticipated absorptive capacity among eligible families in the same time period.

Rental Units under Section 236[1]. Moderately-priced rental units can be provided under Section 236. With exception income limits for Section 236, there is an annual occupancy potential for 510 units of Section 236 housing, including 150 units for elderly families and individuals; based on regular income limits, these potentials would be reduced by approximately 30 percent and 10 percent, respectively. Nearly 15 percent of the families eligible for housing under this section are alternatively eligible for public housing and 75 percent of the elderly households qualify for such accommodations. There are 600 units of Section 236 housing proposed for the Little Rock HMA. These units, when considered in conjunction with the anticipated rent supplement activity, approximate the two-year absorptive capacity of the market for families eligible under this program; however a large part of the potential for elderly housing remains to be satisfied. If additional public housing units for the elderly are not provided during the second year of the forecast period, the potential for similar accommodations under Section 236 would increase by approximately 100 units. It should also be noted that in terms of eligibility the Section 236 potential for families and the Section 235 potential draw from essentially the same universe and are not, therefore, additive.

The Sales Market

The average annual volume of construction of new sales housing in the past two years, although somewhat below the 1965-1967 period, has remained comparatively unchanged. Absorption of these new units has been satisfactory and an increasingly greater proportion have been offered at prices over $30,000. The market for new sales housing in this upper price range, until recently, had been moderately strong.

During the last eighteen months, production of sales housing in the $15,500 to $17,500 price range has declined continually, largely because of the rising costs of developed land; moderately priced homes selling from $19,500 to $22,500 have been marketed reasonably well, although some resistence has occurred as interest rates have risen. The high cost of financing new homes has made the assumption of lower interest mortgages on existing homes more attractive. During the past two years, the large volume of assumptions has permitted an unusual amount of upgrading resulting in a strong market for new high-priced sales housing. But, as the number of available existing homes has diminished, the market for new sales housing priced over $30,000 has softened abruptly. A large proportion of these higher priced homes have been built in an area which lies to the northwest of Little Rock.

Prior to the fourth quarter of 1969, changes in the level of funds available for home mortgages in the Little Rock area had not paralleled the national trend toward a net flow of money out of time deposits and into securities commanding a higher rate of return. A shift of savings from time deposits to securities appeared locally during the last quarter, however, and may necessitate a constraint upon the provision of an adequate supply of mortgage funds.

1/ Interest reduction payments may also be made with respect to cooperative housing projects. Occupancy requirements under Section 236 are identical for both tenants and cooperative owner-occupants.

Developed acreages are available for new sales housing, but the generally high price of this land indicates that demand is in excess of supply. Although such lots are not in critically short supply, continued market pressure on existing lots may not be released by the development of additional land. With rising taxes and an opportunity to earn a greater rate of return elsewhere, suitable raw acreage has become increasingly more costly to hold. In some instances, these costs have become a disincentive to the investor. Furthermore, as the supply of loanable funds has declined, money managers have not made speculative land financing available.

The Rental Market

The market for rental units in the Little Rock HMA has tightened considerably since the previous report. New units in good locations have been absorbed readily and the renter vacancy rate of less than 5.0 percent is suggestive of a balanced market. The volume of new multifamily construction, however, has fallen to its lowest level in eight years, while the demand for additional units appears to be increasing. During the last two years, multifamily developments have been predominantly two-story walk-up apartments. Rents, including utilities, for one-bedroom apartments range from $130 to $150 a month; rents for two-bedroom apartments range from $160 to $190 monthly. A few efficiencies have been built and absorbed satisfactorily. The market for three-bedroom units has not been fully explored; most existing units are concentrated in high-rise apartments built during the mid-1960's.

During the last eighteen months, out-of-state financing of apartment projects has been virtually nonexistent and the production of multifamily housing has fallen correspondingly. The reduced volume has been sustained temporarily as local savings institutions supplied funds for the development of several garden apartment projects. As a trend toward transferring savings into securities surfaced locally, however, additional funds have not been made available. Lenders have felt compelled to earmark their funds for home mortgages. If the supply of loanable funds for multifamily housing remains constrained while the demand for additional rental units continues to increase, a sellers market could develop quickly. Rents commanded by new units marketed within the last year suggest that the demand for high quality rental units already exceeds the available supply. Simultaneously, moderately priced rental accommodations in good condition have become increasingly more difficult to find.

Economic, Demographic, and Housing Factors

The anticipated annual demand for new nonsubsidized housing units, mobile homes, and the occupancy potentials for subsidized housing in the Little Rock HMA are based upon the following employment, income, demographic, and housing factors.

Employment. Highly diversified and generally prosperous, the character of the Little Rock economy has changed very little in the past five years. Employment in manufacturing has increased steadily, though year to year gains have varied. Substantial increases have occurred regularly in nonmanufacturing employment as opportunities in state and local government, largely for women, have strengthened the demand for goods and services. During 1969, nonagricultural wage and salary employment in the two-county Little Rock Labor Market Area1/ averaged 122,200, an increase of 4,200 jobs over the average for the previous year; employment gains were divided equally between manufacturing and nonmanufacturing.

From 1964 to 1967, nonagricultural wage and salary employment increased by an average of 4,650 jobs annually; the largest gain was between 1965 and 1966 when 5,950 jobs were added to the economy. During this three-year period, nearly 60 percent of the increase in wage and salary employment occurred in the government, trade, and services categories. Expansion of educational facilities, government hospitals, state tax and highway departments, and work on the Arkansas River Navigation Project necessitated increased hiring by state and local governments. New hotel and motel accommodations, additions to privately-owned hospitals, and the completion of several suburban shopping centers generated increased employment in trade and services. Economic growth in the manufacturing sector was associated primarily with the metals industry; expansion of facilities by existing firms and the entrance of two new firms generated additional employment opportunities.

During the last quarter of 1967 and continuing through 1968, the rate of economic growth slowed in nearly all sectors. Several new firms--particularly Armstrong Rubber and Prospect Farms--entered the area in 1968, however, and became operational in the last twelve months. Employment in manufacturing increased sharply during 1969 when Armstrong Rubber and Prospect Farms approached anticipated levels of production and when increased hiring resulted from a decision by the Teletype Corporation to begin manufacturing all components in their Little Rock plant.

During the two-year forecast period ending March 1, 1972, prospects for continued economic expansion rest heavily with the nonmanufacturing sectors of the local economy, particularly trade, services, and government categories. Employment in durable goods manufacturing is expected to increase moderately; plant additions by the Teletype Corporation will create new positions predominantly for secondary wage earners, as will the operation of a new firm, Allis-Chalmer. Few employment gains are expected in nondurable goods manufacturing or in other durable goods categories. From March 1970 to March 1972, it is anticipated that nonagricultural wage and salary employment in the two-county area will increase by nearly 3,000 jobs annually.

1/ Approximately 93 percent of the two-county wage and salary employment is in Pulaski County.

Income. As of March 1, 1970, the median annual income of all nonfarm families in the HMA, after deduction of federal income taxes, approximated $7,875, and the median after-tax income of two- or more-person renter households was $6,200. In 1968, median after-tax incomes were $7,375 for all nonfarm families and $5,825 for nonfarm renter households. Percentage distributions of all families and renter households by income class are detailed in table IV.

Demographic Factors. The nonfarm population of the Little Rock HMA was approximately 313,400 in March 1970,1/ reflecting an average increase of 5,850 persons annually since January 1968; population gains from January 1965 to January 1968 averaged 7,750 persons a year. Smaller gains in the recent period resulted from reduced levels of in-migration during 1968 and a decline in the resident birth rate. During the two-year forecast period, nonfarm population is expected to increase by 5,900 persons annually.

There were an estimated 95,100 nonfarm households in the HMA as of March 1, 1970. Since 1968, as the rate of economic growth declined, nonfarm households have increased by 2,025 annually compared with an annual change of 2,800 households during the more prosperous 1965-1968 period. Based on continued economic growth and on a moderate decline in household size, the level of nonfarm households will increase by an average of 1,950 a year during the next two years.

Housing Factors. The nonfarm housing inventory of the Little Rock HMA totaled 99,400 units as of March 1, 1970, a net increase of 3,900 units since January 1968. The increase represented 4,600 new units, 600 mobile homes, and 1,300 units lost through demolitions and other causes. An estimated 760 units were under construction in March 1970, of which 350 were single-family houses and 410 were multifamily units, including 220 public low-rent housing units.

Building permit authorizations indicate that the volume of new construction in the HMA has fallen only moderately during the past two years (see table VI). This reduced level of building activity in permit-issuing areas2/ has resulted from a smaller volume of new multifamily housing, as increasing mortgage costs curtailed interest in the development of multifamily projects. Residential construction in the nonpermit-issuing portion of the HMA, however, appears to

1/ Locally reported preliminary population and household counts from the 1970 Census may not be consistent with the demographic estimates in this analysis. Final official census population and household data will be made available by the Census Bureau in the next several months.

2/ Approximately 65 percent of all new residential construction in the HMA is covered by building permits, including virtually all multifamily construction.

have declined more sharply. The majority of these new homes (including a few duplexes) are built on scattered lots, rather than in subdivisions. In the three-year period from January 1, 1965 to January 1, 1968, an estimated 1,250 units a year were added to the nonfarm housing inventory in nonpermit-issuing areas. Since 1968, this volume of construction has declined to approximately 1,025 new units a year.

Vacancy. In March 1970, homeowner and renter vacancy rates were estimated to be 1.1 percent and 4.9 percent, respectively, compared with ratios of 1.0 percent and 6.5 percent in January 1968 (see table VII). During the past two years, new sales housing has been absorbed satisfactorily and there has been no significant change in the level of available sales housing; in contrast, the number of available rental units has declined substantially and the quality of most of the remaining units is marginal.

Table I

Estimated Annual Demand for Nonsubsidized Housing
Little Rock, Arkansas, Housing Market Area
March 1, 1970 to March 1, 1972

A. Single-family Houses

Sales price	Number of units	Percent of total
Under $17,500	160	10
$17,500 - 19,999	240	15
20,000 - 22,499	230	14
22,500 - 24,999	210	13
25,000 - 29,999	300	19
30,000 - 34,999	240	15
35,000 and over	220	14
Total	1,600	100

B. Multifamily Units

Monthly gross rents a/	Efficiency	One bedroom	Two bedrooms	Three bedrooms
Under $130	10	-	-	-
$130 - 149	5	90	-	-
150 - 169	-	40	120	-
170 - 199	-	25	90	15
200 - 229	-	10	30	15
230 - 259	-	-	20	10
260 and over	-	-	10	10
Total	15	165	270	50

a/ Gross rent equals shelter rent plus the cost of utilities.

Table II

Estimated Annual Occupancy Potential for Subsidized Rental Housing
Little Rock, Arkansas, Housing Market Area
March 1, 1970 to March 1, 1972

	Section 236 a/ exclusively	Eligible for both programs	Public housing exclusively	Total for both programs
A. Families				
1 bedroom	50	-	30	80
2 bedrooms	140	25	115	280
3 bedrooms	70	20	140	230
4+ bedrooms	50	5	115	170
Total	310	50 c/	400 c/	760
B. Elderly				
Efficiency	20	80	160	260
1 bedroom	20	30	80	130
Total	40 b/	110 d/	240 d/	390

a/ Estimates are based upon exception income limits.

b/ Applications and commitments under Section 202 are being converted to Section 236.

c/ Approximately two thirds of these families also are eligible for the rent supplement program.

d/ All of the elderly couples and individuals also are eligible for rent supplement payments.

Table III

Nonagricultural Wage and Salary Employment by Industry
Little Rock, Arkansas, Labor Market Area 1964-1969
(Annual averages)

Components	1964	1965	1966	1967	1968	1969
Total	101,450	106,650	112,600	115,400	118,000	122,200
Manufacturing	21,450	22,700	24,450	24,600	25,400	27,500
Durable goods	11,600	12,450	13,950	14,000	14,300	15,500
Lumber and wood	1,750	1,800	1,800	1,800	1,900	1,700
Furniture	1,450	1,550	1,700	1,400	1,700	1,700
Stone, clay, and glass	850	850	850	900	800	800
Metals	7,350	8,050	9,400	9,700	9,700	11,000
Electrical machinery	2,400	2,400	3,200	2,900	2,700	3,300
Other durable	200	200	200	200	200	300
Nondurable goods	9,850	10,250	10,500	10,600	11,100	12,000
Food	3,100	3,150	3,150	3,100	3,400	3,500
Apparel	1,800	1,800	1,600	1,500	1,500	1,700
Printing and publishing	1,400	1,450	1,500	1,600	1,700	1,800
Other nondurable	3,550	3,850	4,250	4,400	4,500	5,000
Nonmanufacturing	80,000	83,950	88,150	90,800	92,600	94,700
Construction	7,850	8,250	9,000	8,900	8,700	8,600
Transp., comm., and utilities	8,350	8,850	9,200	9,200	9,000	9,400
Trade	21,900	22,600	23,700	24,500	25,700	26,300
Wholesale	6,900	7,350	7,850	7,800	8,100	8,300
Retail	15,000	15,250	15,850	16,700	17,600	18,000
Finance, ins., and real estate	7,350	7,650	7,950	8,200	8,400	8,500
Services	14,000	14,600	15,300	16,100	16,300	17,000
Government	19,400	20,800	21,700	22,700	23,400	23,800
Other nonmanufacturing	1,150	1,200	1,300	1,200	1,100	1,100

Source: Arkansas Employment Security Division.

Table IV

Percentage Distribution of All Families and Renter Households by Estimated Annual Income after Deduction of Federal Income Tax
Little Rock, Arkansas, Housing Market Area, 1968 and 1970

Income	All families 1968 b/	All families 1970	Renter households a/ 1968 b/	Renter households a/ 1970
Under $3,000	13	11	19	17
$3,000 - 3,999	7	7	11	10
4,000 - 4,999	9	8	11	11
5,000 - 5,999	8	8	11	10
6,000 - 6,999	9	8	10	9
7,000 - 7,999	9	9	9	9
8,000 - 9,999	15	14	12	14
10,000 -12,499	12	14	9	10
12,500 -14,999	8	8	4	5
15,000 -19,999	6	8	3	4
20,000 and over	4	5	1	1
Total	100	100	100	100
Median	$7,375	$7,875	$5,825	$6,200

a/ Excludes one person households.

b/ Revised.

Source: Estimated by Housing Market Analyst.

Table V

Nonfarm Demographic Trends
Little Rock, Arkansas, Housing Market Area 1965 - 1970

Components	January 1, 1965	January 1, 1968	March 1, 1970	Average annual change 1965-1968 Number	Rate a/	1968-1970 Number	Rate a/
Population							
HMA total	277,500 b/	300,750 b/	313,400	7,750	2.7	5,850	1.9
Little Rock	139,025	145,600	150,000	2,200	1.5	2,030	1.4
North Little Rock	65,750	68,350	69,100	850	1.3	360	0.5
Remainder of HMA	72,725	86,800	94,300	4,700	5.9	3,460	3.8
Households							
HMA total	82,300	90,700	95,100	2,800	3.1	2,025	2.2
Little Rock	44,900	47,500	49,150	870	1.9	760	1.6
North Little Rock	18,900	20,100	20,400	400	2.0	140	0.7
Remainder of HMA	18,500	23,100	25,550	1,530	7.4	1,125	4.7

a/ Derived through the use of a formula designed to calculate the percentage rate of change on a compound basis.

b/ Revised.

Source: 1965, 1968, and 1970 estimated by Housing Market Analyst.

Table VI

Privately Financed Housing Units Authorized by Building Permits[a/]
Little Rock, Arkansas, Housing Market Area, 1960-1969

Year	Single-family	Multi-family	Total
1960	732	84	816
1961	955	104	1,059
1962	1,551	582	2,133
1963	1,655	742[b/]	2,397
1964	1,775	604	2,379
1965	1,639	881[b/]	2,520
1966	1,000	578	1,578
1967	1,040	637	1,677
1968	993	490	1,483
1969	1,012	301[b/]	1,313

a/ Approximately 65 percent of all new residential construction in the HMA is covered by building permits, including virtually all multifamily construction.

b/ Excludes a total of 710 units covered by contracts for public housing.

Sources: U.S. Bureau of the Census and local building inspectors.

Table VII

Tenure and Vacancy in the Nonfarm Housing Inventory
Little Rock, Arkansas, Housing Market Area 1965-1970

Components	January 1, 1965	January 1, 1968	March 1, 1970
Total housing supply	86,900	95,500	99,400
Occupied housing units	82,300	90,700	95,100
Owner-occupied	50,200	57,400	60,850
Percent of all occupied	61.0	63.3	64.0
Renter-occupied	32,100	33,300	34,250
Percent of all occupied	39.0	36.7	36.0
Vacant housing units	4,600	4,800	4,300
Available vacant	2,750	2,900	2,400
For sale	875	600	650
Homeowner vacancy rate	1.7	1.0	1.1
For rent	1,875	2,300	1,750
Rental vacancy rate	5.5	6.5	4.9
Other vacant a/	1,850	1,900	1,900

a/ Includes seasonal units, vacant dilapidated units, units rented or sold awaiting occupancy, and units held off the market for other reasons.

Sources: 1965, 1968, and 1970 estimated by Housing Market Analyst.