market & economic analysis

April 30, 2004

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Rapid change is taking place in Fayetteville. The city and its residents have stepped in at the critical moment to guide the process of change rather than letting change overtake them. The time could not be more perfect for the city to create a vision of its future. The question that everyone would like to see answered is whether the vision that they have expressed in the master plan can actually happen—is it feasible, does it make sense economically? The short answer is yes.

To come to this conclusion, UrbanAdvisors looked at a series of different types of information. National trends were examined and compared to what is taking place locally. The team reviewed demographic and employment estimates and projections both locally and regionally, to understand potential housing markets, retail, services and employment in the downtown. The team met with local builders and estimated construction costs for producing the type of buildings called for in the Downtown Master Plan. Finally, working with the designers, UrbanAdvisors assisted in the process to assure that the requirements for marketable land uses were met in the design. Fayetteville is already developing, and some of it is very high quality. There is assurance in local practice that what is proposed can continue to work as has already, but with even more success from direction based upon principles outlined by the community.

The various parts of the economic and market analysis are outlined in this chapter and explain in more detail why and how the Downtown Master Plan can work.

National Trends in Downtown Redevelopment

Redevelopment of ailing commercial districts and city neighborhoods has been taking place across the nation. Redevelopment has proceeded through five strategies:

- the creation or enhancement of arts districts;
- the creation of housing in or near commercial areas;
- destination retail or lifestyle centers with entertainment;
- new office and retail/mixed use districts; and
- new open space amenities.

All of the strategies have in common the concept of "placemaking" or creating a critical mass of change that can alter local perceptions of the area to be redeveloped.

Arts Districts

In Northwest Arkansas, downtown Fayetteville is the only place with the ability to support arts facilities on a regional scale. This is important because the arts are now perceived to be a significant means for encouraging the public to visit and use peripheral businesses adjoining arts facilities. Some arts districts occur in areas with old existing buildings, such as obsolete warehouses that can offer artists studios at a cost low enough to encourage a critical number of studios and galleries. Major arts districts in large cities typically include at least four types of facilities: museums, galleries, symphony or opera performing arts venues and retail to appeal to visitors such as restaurants and cafes.

The reason for looking at the arts as a generator of economic potential is that arts districts draw people on a regular basis and provide foot traffic for local restaurants, cafes and retail businesses. In Denver, for instance, the city's cultural district drew 7.9 million visitors in 1997, more visitors than attended Broncos, Nuggets, Rockies, and Avalanche

Downtown Denver, CO

San Francisco, CA

Rowhouses on Prince Street in Alexandria, VA

games combined. Arts facilities are seen as an amenity that enhances quality of life and yields a perception of quality to an area. The arts are also seen as an amenity that draws new residential and office development.

Arts districts can include many different functions from museums, galleries, theaters, small cinemas, and educational facilities, to building redevelopments for artists' lofts and live/work units with studios on the first floor and living space on the second. Creating an arts district requires many of these uses in conjunction, and usually relies upon the renovation of old building stock including old warehouses, theaters, hotels and other buildings of architectural interest. In Berkeley California, a new performing arts facility was combined with streetscape art installations and the redevelopment of City Hall. In Portland, a new building for art education is part of the on-going revitalization of the Pearl District, a former warehouse district.

At the same time as yielding benefits, arts facilities and developments are rarely self sustaining, and usually require a variety of funding and equity sources to succeed including public funding, patrons or donors, and sometimes the use of sales taxes and local improvement districts to fund improvements. Creating arts facilities requires a public commitment of funding that varies with the size of the proposed project. Live/work space, in particular, has been successful in such diverse areas as Salt Lake City, Minneapolis and Little Rock, Arkansas.

The most successful arts districts have strings of galleries intermixed with theater and symphony venues. One possibility is to establish an arts incubator as an adaptive re-use project. Arts incubators are projects that offer lower rent for live/work studios in exchange for public benefit, such as requirements for public open studio nights. The residents or tenants are required to be practicing artists and to display work on a monthly basis to the public. While some funding would be required, such projects have succeeded and economic development funding is available for incubators.

Urban Housing

Providing attractive urban housing and stabilizing neighborhoods adjacent to downtown is a particular concern for Fayetteville. The addition of medium to high-density housing is an effective strategy for providing a base of consumer spending within walking distance of restaurants, retail and services. It is also used in combination with office and employment centers to provide units near work for residents, lowering commutes and producing efficient shared parking arrangements. According to the American Housing Survey by the Bureau of the Census, urban housing is typically being purchased by upper-income households with fewer than two persons per household. These households are from 25 percent to over 40 percent seniors, and include a high percentage of households (as high as 50 percent) of females living alone. The majority of households is in the age range over 45, and has built equity that allows the purchase of high quality units. This type of development is dependent upon high amenity value: people choose to be in the proximity of arts facilities, downtown retail and services, nearby work locations, an active entertainment district that includes restaurants, a walkable environment that has high levels of evening use, and access to transit.

The development costs of newly built urban housing are often higher than standard suburban development. Adaptive re-use can in some cases cost less, perhaps much less, but this depends upon the structural integrity of the building. People are willing to pay for the freedom and excitement of urban living. Development of this sort requires a combination of housing with an amenity-rich environment that has the critical mass to create its own ambience.

Destination Retail Development

Another specialized use to consider in planning downtown Fayetteville is the destination retail center. Destination retail/entertainment developments create a pedestrian environment that can also be reached by automobile. They include entertainment uses to create an evening hours draw for customers. These centers range in size from 70,000 square feet to over 600,000 square feet. At the lower end of the scale, they include community amenities such as public plazas that are used for public functions including high school graduations and weddings. Larger destinations have been using multiplex theaters as anchors along with nightclubs and restaurants.

Destination retail appears to be dependent upon strong retail spending demographics and appeal to the need for public facilities and gathering places. Some destinations have been created as direct copies of urban main street scenes. Many development corporations are actively pursuing the creation of destination "Main Street" style development because of the perceived public interest in authentic[1], public retail districts. These retail districts may be anchored by smaller versions of national chain stores but also contain local unique businesses such as those found in Fayetteville. The inclusion of longstanding local businesses adds a quality to the retail mix that cannot be duplicated elsewhere.

Destination retail has been occurring in both cities and suburban locations. The more successful development relies upon the creation of a sense of community, with attractive pedestrian ways, public space and plazas, outdoor café seating, distinct façade design for each storefront and a mix of local businesses and chain anchors. They have more restaurants than is typical, along with higher proportions of leisure activity retail such as bookstores, electronics and video and children's stores. These developments have been done with and without structured parking. According to the Urban Land Institute, well-planned destinations draw from a radius of 30 miles despite their small size, in comparison to the typical 15-mile market radius for a regional mall.

Financing for destination retail can be more complicated than a standard development because the projects themselves tend to involve higher up-front costs for infrastructure and amenities. Parking cost can be a particular problem. If structured parking becomes necessary to assure the ability to provide access to support sales and a wider choice of retail businesses at one location, costs can rise dramatically.

Parking is an issue for this type of development. Destinations in city centers rely in part on adjoining parking that is used by office workers during the day, and thus the project does not need to provide all of its parking as part of the development. Strategies to lessen the financial impact of structured parking include shared use, efficient design and sometimes public ownership or financing of the parking.

[1] "Authentic" meaning a district that has public access and amenities as opposed to the closed commercial environment provided by malls.

The advantage of creating a "destination" Downtown is the ability to draw from a wide area. Fayetteville is expected by 2008 to have market support for over 500,000 square feet of new retail (see "Retail Space and Downtown"). If configured with existing successful local retailers there should be a sufficient market to support a destination that has arts, a theater, restaurants, and retail.

New Office and Retail/Mixed Use Downtown

Office/Commercial

Office employment is one of the primary components of a healthy downtown and helps to support hotels, retail and restaurants in the area. Office development has been used in conjunction with all of the types of redevelopment outlined. New office users are looking for amenities along with an aggregation of businesses of their type. In redevelopment, office is primarily used as a component of mixed-use retail projects, but is a vital part of the mix. Retail needs to occupy ground floor space, so office helps to intensify land-use and economic feasibility by making upper floors useful. At the same time, office development can be balanced with what is termed "24-hour" uses (movie theaters, restaurants, late-night cafes, shops and bookstores with long hours) because the parking can be shared after office tenants leave for the day.

One of the major trends of the last 15 years and has been the reversal of suburban and downtown office markets. Economic expansion in the late 1980's and early 1990's shifted office markets to suburban locations. Starting in 1996, suburban completion rates were more than twice those of downtown areas. According to Torto Wheaton (a national economic projection firm) completion rates from 2000 to 2005 in downtowns are expected to be relatively stable between 1 percent and 1 1/2 percent, while the expected rate of completions for the suburban areas varies from 1 1/2 percent to 2 1/2 percent over the same time period. Since 1991, suburban office investment returns have matched or exceeded the returns for downtown office despite the fact that downtown rents are typically at a premium.

The move of office to the suburbs seeks to capitalize the cost of commute times by employees. This is offset by the advantages of information flow that result from aggregation near other businesses of the same type downtown. Businesses that innovate will tend to be near other businesses that innovate. For instance, high-tech businesses will cluster near other high-tech businesses in relatively close proximity. This can occur in either large or small cities. The advantage for smaller cities is a lower housing cost and lower commute time.[2]

According to the Urban Land Institute, the increasing use of computers and technology and their effect on all office users has resulted in different requirements for office than in the past. Office users now need wiring and mechanical systems far more extensive than those found in older buildings, including:[3]

- wiring for local area networks,
- cable networks,
- satellite communications,
- wide area networks,
- high-quality electrical supplies with filtered current and surge protection, and
- enough electrical outlets to allow the free movement of partitions and office groups.

The needs of modern users dictate either extensive renovation of existing space or development of new space. Typical floor plates to allow

[2] U.S. Congress, Office of Technology Assessment, The Technological Restructuring of Metropolitan America, September 1995.
[3] Peiser, Richard, and Mouchly, Ehud. "The Impact of Technology," Urban Land Tech Trends Supplement, October 1999.

open offices start at 10,000 square feet of usable area and current standards for electrical and mechanical systems can make small high-quality projects more costly than medium size projects.[4] Renovation of existing buildings depends upon floor-to-floor heights, the cost of, and ability, to retrofit supporting mechanical systems, the size of structural bays on each floor, and other factors that must be evaluated professionally for each building.

The need for flexibility and for extensive electrical system requirements applies to back-office uses as well as tech start-ups. Back office uses are the sort of administrative work necessary to keep a business running (including data processing and other operations functions) but not part of the functions of a headquarters office. Back-office processing of data and administrative work relies on electronic connections to distant headquarters. Headquarter locations are also sometimes chosen by managing executives (Microsoft in Redmond for instance).[5]

Another aspect of the changing office market is that tenants are looking for nearby amenities. In its 1999 report on office trends, ULI noted that new office users wanted access to restaurants, cafes that may be open late, banks or ATM facilities, and an attractive location. For this reason, there have been developers successfully locating new office in mixed-use projects that create a lively retail environment at the same time.[6]

While Fayetteville is already a business center, recommendations about activating the first floor with retail, and parking management to encourage evening uses are applicable. Much of the building stock in

The Three Sisters Building, Fayetteville, Arkansas

Downtown may be functionally obsolete in comparison to the needs of modern users. As part of an economic development plan, an inventory of buildings and their characteristics should be undertaken to determine the means and cost to bring them up to date, and form a plan for providing funding grants and low-interest loans to perform updates. Where buildings are found to be obsolete, adaptive re-use should be considered. It should be noted that updated historic buildings, when structurally sound, can offer excellent development opportunities because they often have qualities that are impossible to afford in modern construction. These qualities in an updated building often lead to rents that are very favorable when combined with historic tax credits and other funding mechanisms.[7]

Retail Mixed Use

Mixed-use development Downtown reinforces the historic character of its past development patterns and emphasizes downtown's difference from the low-rise low-quality construction seen in strip malls.

Mixed-use development is the juxtaposition of different land uses in a single building or on a single site in a way that is hoped to be mutually

[4] RS Means Cost Index, 2001

[5] Another example is the choice of Sun Computer to locate in Anacortes, WA. A senior executive knew Anacortes and wanted a location on the water. Anacortes is a long way from Silicon Valley.

[6] One such example is Bethesda Row in Bethesda. Maryland developed by Federal Realty Trust. It incorporates 110,000 square feet of office with 190,000 square feet of retail and 40,000 square feet of restaurant. The project is successful and has spurred similar development by Federal.

[7] In a recent project with Winter and Company, we found that historic office properties in Truckee, California rented for up to three times the amount paid for space in strip or suburban locations.

Eureka Springs, Arkansas

Galena, Illinois

beneficial to each use, and to the surrounding community. Mixed-use can be horizontal or vertical. Horizontal mixed use is the combination of different uses next to each other. Vertical mixed-use is the combination of uses within single structures such as the original structures lining Center Street. Mixed-use projects need not be high-rise development, and can be accomplished at scales appropriate to the contexts.

Many mixed-use projects combine residential with retail or employment uses. The factors that drive residential mixed use are proximity to amenities and convenience in commuting and access to services. As residential density rises, residents trade private outdoor space for public amenities such as restaurants, retail and services and employment within walking distance. Amenities make the residential units easier to rent or sell, and the proximity of customers supports the commercial, retail and services. The additional local retail and services can be a benefit to the surrounding neighborhoods.

Nationally, the perception of mixed-use development has changed over the last 20 years. In the 1980's, because of a series of tax changes and relaxed lender fiduciary requirements, a number of projects were built without adequate market and financial due diligence. One result of creating tax-driven projects was termed the "savings and loan scandal." Another was that poorly conceived mixed-use projects assembled one of the worst financial track records of the 1980's. During the last decade, however, many successful mixed-use projects have been built. The lessons from these projects indicate some fundamental steps in the conceptualizing and building of mixed-use development.

Successful mixed use depends on development team experience and financial capability, careful market assessment of each product, realistic financial assessment during the project concept phase, a supportive regulatory environment, and a supportive neighborhood. A development team with experience is crucial for success. Vertical mixed use is more difficult to accomplish than horizontal mixed use. Mixed-use offers complications with (among other things):

- parking sharing between residents and commercial tenants;
- expensive fire separations between use types;
- more stringent fire safety requirements than single-use structures;
- costly duplication of vertical circulation (elevators and fire stairs) and building access;
- more complicated (and expensive) utility infrastructure;
- more regulatory oversight and approvals;
- more complicated legal structure for ownership;
- more complicated financial packaging to gain financing;
- more expensive and complicated appraisal process; and often,
- land assembly

In addition, most successful developers focus on single products such as residential, retail or office and sometimes know little about the specific factors for success required to produce other products.

For all these reasons, mixed use requires experienced designers who know how to solve the technical problems and developers who have refined their product mix and market strategy to respond to market and financial realities. Fayetteville has such designers and developers as evidenced by recent local developments including the Campbell Bell

Building, The Three Sisters building and others Downtown.
A supportive regulatory environment must be in place for mixed use to succeed. The key element is flexibility that allows developers to respond to the market while maintaining the intent of mixed use: to produce a high-amenity, livable urban environment. Part of that environment of livability is maintained through careful physical design to achieve compatibility with established neighborhoods, and to mitigate the effects of a higher intensity of development. Successful regulation balances project specific needs with mitigation of potential impacts to existing neighborhoods.

Main Streets

A typical mixed-use type is the development of higher intensity development along or adjacent to well used traffic corridors. Automobile and foot traffic are the lifeblood of retail and the combination of housing and retail along highly traveled corridors can help to create a market for retail and services. A good main street will have 8,000 to 20,000 or more trips per day combined with pedestrian amenities and enough residential development within a quarter-mile radius to allow for high foot traffic near businesses.

Successful main street commercial areas tend to:

- be no longer than 800 to 1,200 linear feet (a reasonable walking distance);
- have reasonable crossing distances for pedestrians (usually not more than 60 feet)
- have retail on both sides of the street;
- have enough housing within less than a five minute drive to yield up to 60 percent of the needed support for retail and services;
- have continuous building frontage without breaks for large parking lots or drive-through facilities; and
- have a mix of retail and services that foster activity at night as well as during the day.

Main street style mixed use along corridors offers the opportunity to provide a transition between busy streets and less dense neighborhoods adjoining them. Mixed-use development where retail, office and housing are combined either vertically or horizontally is feasible where there is a market for retail and an unsatisfied demand for moderate density units or multi-family units. Mixed-use development on corridors offers the opportunity to create student housing and associated services without disrupting the fabric of local neighborhoods. It can also offer an opportunity to create ownership opportunities for one and two person households at moderate pricing.

Large standalone mixed use projects will tend to require large sites of 20,000 square feet or more, if they must independently provide for all parking, loading, and services (garbage, etc). However, smaller sites can be developed if alleys are present for the service functions. Therefore public investment in land and maintenance of a functional alleyway system is an excellent support mechanism for smaller, human-scaled projects and local reinvestment. Ideally, corridor planning will focus on the creation of high-quality sections of 800 to 1200 feet in length rather than trying to mandate change for an entire corridor miles in length. Retail should only be a requirement where there are sufficient "destination" trips and adequate surrounding residential development.

The Downtown Master Plan suggests that a portion of Block Avenue, combined with the existing areas of Dickson Street, is suitable for the creation of a "main street" core Downtown. A future "main street" location is the renovated portion of College Avenue. Successfully creating a main street core will require partnership between the private sector and the city, because the city is the implementing planning body for setting the conditions of land use. At the same time, hours of use, shared parking and other private sector issues must also be resolved. There is a full outline of these implementation measures listed later in the report.

Open Space Improvements

Because of their beneficial economic impact, parks and open space should be planned as part of the structure of the renewed downtown Fayetteville. Park and open space amenities can act as a catalyst for positive change in urban environments. A historical example is Central Park in New York City where real estate values in the area around the park increased by nine times after its construction. Parks and open space also act as a magnet for visitors and increase positive perceptions of the urban areas in which they are located. Large developers such as the Rouse Corporation have successfully included green space in their developments to encourage visits and increase foot traffic.

The economic benefit of open space on property values lies behind such suburban residential development strategies as the golf-course housing development, but open space plays a part in successful downtowns, too. The effect of the open space is called an "externality." An externality is an effect that a particular land use has upon its surroundings. A negative externality is one where an undesirable land use lowers the value of adjoining properties (the classic example in zoning law is a pig farm). Well-conceived parks and open space tend to be a positive externality and confer value on the properties surrounding them. Proximity to attractive natural features and views is acknowledged as a factor in the value of housing units. Downtown, open space planning is needed where office and housing are projected.

Local Market Trends

As part of the Downtown planning process, UrbanAdvisors investigated local demographic trends and interviewed a wide range of community representatives to understand the local economic and development conditions. Analysis of this data suggests the need for a viable program for redevelopment of the historic downtown and strategies for successful implementation.

Existing Study Area Land Use

Land Use Zoning	**Acres of Use**
Commercial	132.89
Industrial	44.37
Parking	7.92
Multifamily	57.59
Single Family	102.16
Total Study Area	**344.93**

Downtown Fayetteville is comprised of approximately 345 acres of land as shown in the table above. For the goals of Downtown, it may be possible to intensify and enhance use without greatly changing the tone or character that is prized by residents. Measurement by the design team indicates there are over 25 acres of land that could accommodate infill development and many sites that could be used more efficiently. It is not, however, possible to build to the potential indicated in the Downtown Master Plan with current land use patterns or zoning. Further, even though interviews indicated the desire by residents, neighborhood representatives and business representatives to enjoy a more vital business, retail and neighborhood environment, the question remains as to what is actually supportable by the marketplace. To understand the potential for this enhancement, UrbanAdvisors reviewed demographic, sales, and other data from Northwest Arkansas and evaluated the market trends in Fayetteville and its downtown.

Background Interviews

UrbanAdvisors interviewed local lenders, property owners, neighborhood representatives and business representatives to learn more about the economic and development conditions in Fayetteville. Downtown Fayetteville acts as the art and cultural center for the region, and serves as the local banking center.

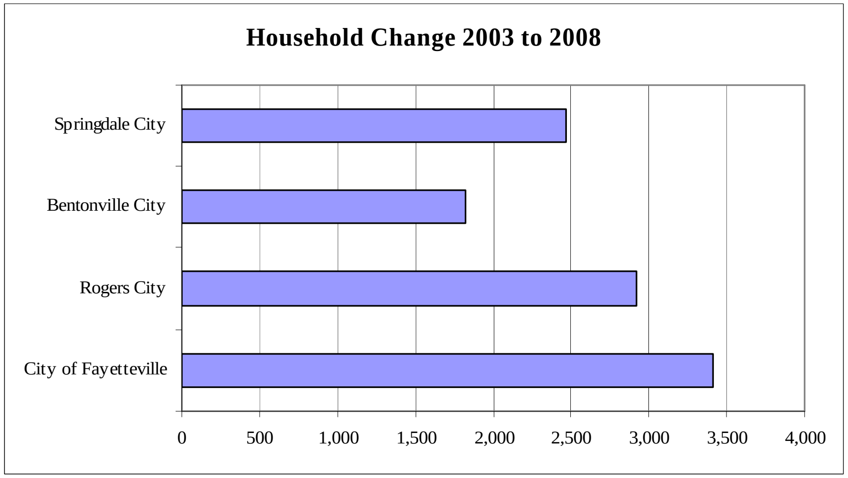
The issues discussed tended to break into specific categories, and are listed by category in the appendix rather than by interview group or affiliation. The topics and issues covered included: traffic and streets; parking; real estate; development incentives; the City regulatory framework for the study area; Fayetteville's role and character in the region; employment and growth; downtown neighborhood issues and use conflicts; economic development and job creation and the University; visions for downtown revitalization; the natural heritage of the community and its importance; the relationship of downtown to the University; and the role of the Walton Arts Center and the creation of a cultural district.

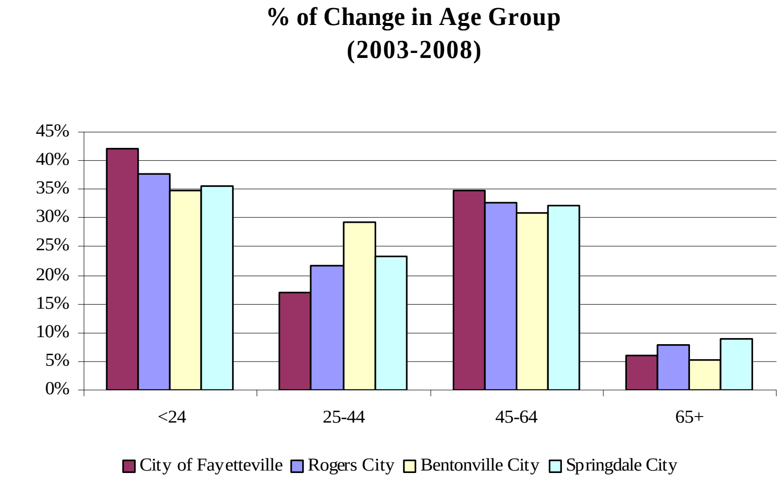
In general, interviews indicated that residents wanted more retail amenities, better pedestrian access, preserved and revitalized neighborhoods with more residential ownership, a balance between business interests and the neighborhoods, an enhancement of the cultural attributes Downtown, and more attractive gateways and streets coming into downtown.

Demographic Trends

The demographics of the study area include a median household income of $18,000, with 44% under $15,000, household size of 1.65 persons; and only 14% owner occupied units. This could be misinterpreted; Downtown is also comprised of 60% students. More impressive is the projected *trend* of local demographics.

Demographic trends for Fayetteville are illustrated in the following charts.





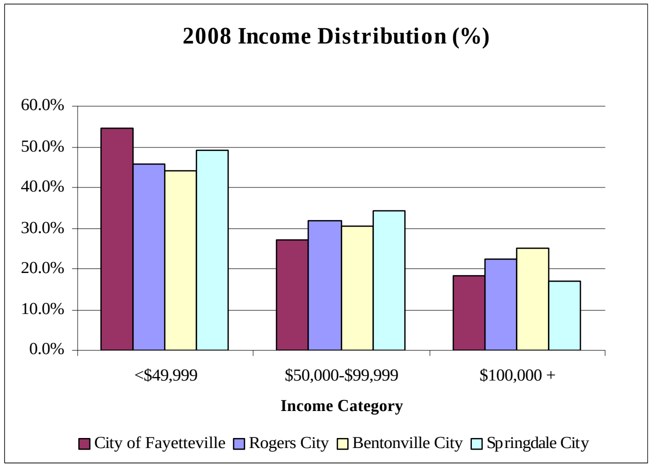
Data Source: ESRI Business Information Services

Fayetteville is projected to capture a significant proportion of growth in Washington County. Of the 20,800 new residents in 8,500 new households expected in Northwest Arkansas in the next five years, Fayetteville is expected to see 7,200 new residents in 3,400 households, or about 35% of population growth.[8] This makes Fayetteville the leading regional center for household capture.

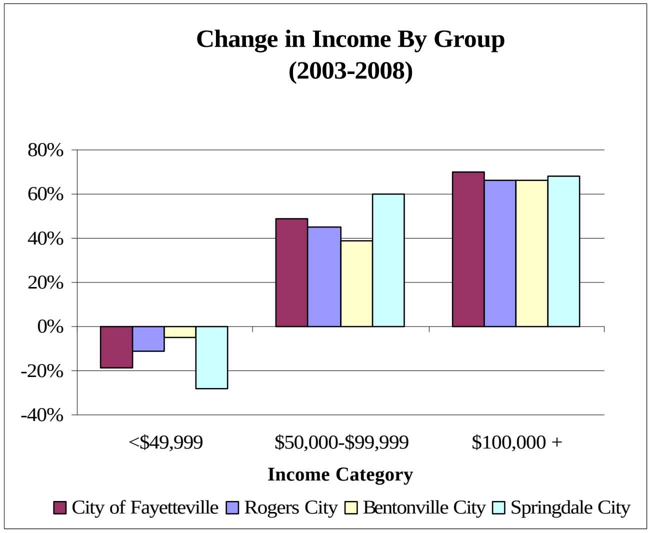
[8] ESRI Business Information Services.

It may surprise many local residents that Fayetteville can successfully compete in the region without using suburban development types. In fact, Fayetteville has many valuable assets that attract new residents; it is the only historic downtown in the region that has maintained a compact, walkable community that offers a rich experience with unique cultural assets and historic buildings and neighborhoods.

The small ratio of population growth to household growth indicates that new household sizes will average 2.1 persons in the city and 2.5 persons in the Northwest Arkansas. This smaller household size also matches the trends in population age. In Fayetteville, the largest group of new residents will be under 24, probably related to the University. Significantly, there is a large increase is also projected in the 45 to 64 age group. The increase in these age groups helps explain the decrease in household size.



Data Source: ESRI Business Information Services



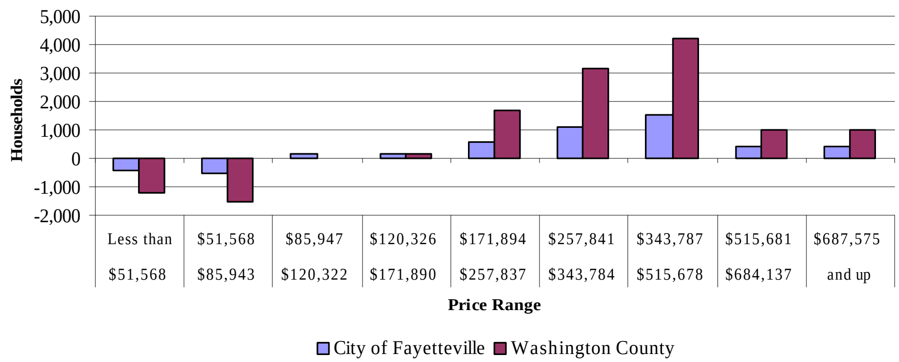
Data Source: ESRI Business Information Services

Although most households in Fayetteville and Northwest Arkansas are expected to earn under the median income of $45,000 in 2008, the number of below median income households is projected to decline. In Northwest Arkansas, growth is projected predominantly (74% of change) in the $100,000+ income group; in Fayetteville growth in the $100,000+ income group is projected to represent 70% of change.

Together this paints a picture of new future residents with small households balanced between students and empty nesters with high incomes. In other markets, "empty-nesters" provide strong support for urban housing close to amenities. Where such products are available, the urban market captures between 4% and 8% of the demographic. Based on pent-up demand (due to the scarcity of suitable products) the current market may support between 1,200 and 2,500 units. By 2008, demand could be between 1,800 and 3,600 units.

Implications for Downtown

Change in House Price Affordability (Households)



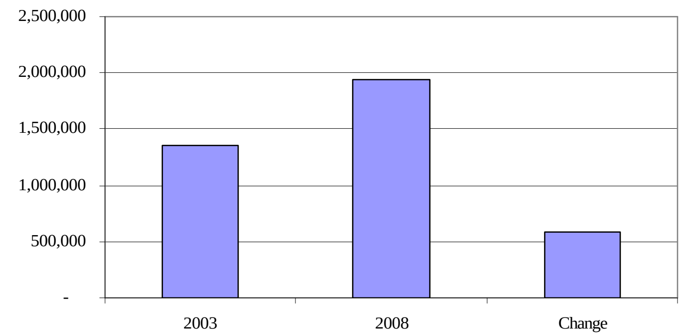
Data Source: ESRI Business Information Services

The shift in household income and household growth has implications for the housing market. When one considers the change in households, the growth will need to be accommodated in housing and the question arises of what housing price can be afforded by those who constitute the growth. The groups that are growing can afford a certain price of house based on income range and Urban Advisors calculated housing prices based upon the incomes in the groups that constitute the household growth. Based on this, the future market could support housing in town in the price ranges between $170,000 and $500,000, with most of the market above $170,000. There is a corresponding decrease in demand for units valued under $86,000.

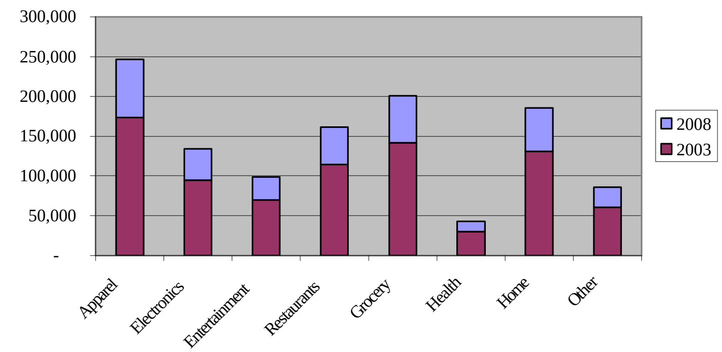
Retail Space and Downtown

A number of residents expressed the desire for enhanced retail and retail services Downtown. To evaluate the potential for change we examined current and future spending (see Appendix A for retail spending figures).

Supportable Retail Space
City of Fayetteville



Supportable Retail Space
Downtown Fayetteville (5 Minute Drive)



Data Source: ESRI Business Information Services

In 2002, Fayetteville residents earned an aggregate of almost $1.3 billion, and spent 30% of income on retail expenditures totaling about $390 million. This should support 459,000 square feet of new retail uses over the next five years. The Downtown market area should support 290,000 square feet of this, suggesting that there is a strong local market for downtown retail uses.

Downtown Program Goals

The limiting factor in providing retail and residential uses Downtown will not be the market, but the availability of developable land. Based on the availability of land and the density goals of the city, up to 1,600 housing units, mostly owned, could be created Downtown to balance the residential mix. The units would be a combination of adaptive re-use, renovations and new construction.

Destination retail clusters require between 75,000 and 100,000 square feet at a minimum to provide the amenities expected by residents. The Downtown Master Plan proposes new mixed-use retail between Block Street and Dickson Street, as well as along College Avenue to provide infill neighborhood retail amenities of this scale.