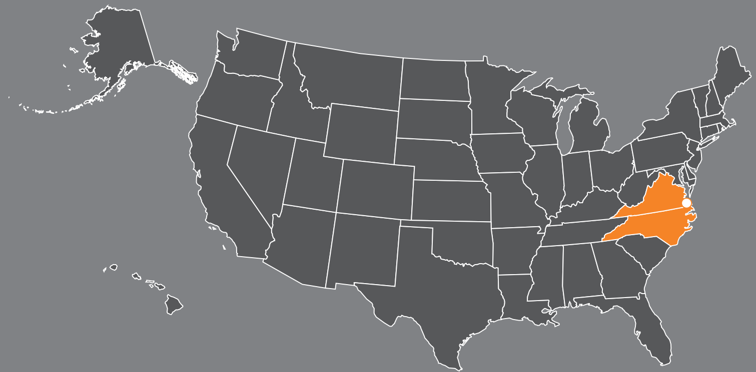
HUD PD&R **Housing Market Profiles**

Virginia Beach-Norfolk-Newport News, Virginia-North Carolina

Virginia Beach, Virginia

Quick Facts About Virginia Beach-Norfolk-Newport News

- **Current sales market conditions: tight**
- **Current rental market conditions: balanced**
- **Current apartment market conditions: slightly tight**
- **The economy in the Virginia Beach metropolitan area is heavily dependent on U.S. Department of Defense (DoD) spending, which is estimated to account for nearly 46 percent of all economic activity in the metropolitan area (Hampton Roads Chamber of Commerce) and, to a lesser extent, on the Port of Virginia and the tourism industry.**



By Tomasz Kukawski | As of May 1, 2021

Overview

The Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (hereafter, Virginia Beach metropolitan area) includes the following counties and independent cities: Currituck and Gates Counties in North Carolina; Gloucester, Isle of Wight, Mathews, James City, and York Counties in Virginia; and the independent cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg in Virginia. Economic activity in the metropolitan area relies heavily on the presence of military personnel, civilian federal government employees, and industries related to DoD. The federal government supports more than 142,000 civilian and military jobs in the metropolitan area (Bureau of Economic Analysis, 2019). Huntington Ingalls Industries, Inc. is the largest military shipbuilding company in the nation and the largest private employer in the metropolitan area, with nearly 24,000 employees. The metropolitan area is also a popular tourist destination, with more than 30 miles of Atlantic oceanfront and historical destinations, including Colonial Williamsburg, Jamestown Settlement, and Yorktown Battlefield.

Currently, the local economy is recovering from a sharp downturn caused by interventions to slow the spread of COVID-19 that began in March 2020. Home sales market

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conditions are tight due to faster population growth since 2018. The rental market is balanced, but apartment market conditions have tightened from a year ago, as demand for new apartments continues to outweigh supply.

- The population of the Virginia Beach metropolitan area is estimated at 1.75 million, which represents an average increase of 5,975 people, or 0.3 percent, annually since 2018. Net in-migration averaged 730 people annually (U.S. Census Bureau population estimates as of July 1 and estimates by the analyst). By comparison, from 2014 to 2018, population growth averaged 3,850, or 0.2 percent, annually, and net out-migration averaged 4,150 people a year.
- Population growth has accelerated since 2018 because of a switch to net in-migration resulting from higher DoD spending since 2017, which led to an increase in military personnel and supported stronger economic growth before the downturn caused by COVID-19.
- Population growth in the metropolitan area has been limited by declining net natural increase (resident births minus resident deaths). Since 2018, net natural increase has averaged 5,250 people a year, down from an average of 8,000 people a year from 2014 to 2018.
- Approximately 83 percent of people residing in the Virginia Beach metropolitan area live in the seven independent cities, with populations ranging from 93,900 in the city of Suffolk to 451,200 in the city of Virginia Beach. The city of Virginia Beach and the cities of Chesapeake and Norfolk are the three most populous cities in the state of Virginia.

Economic Conditions

Economic conditions in the Virginia Beach metropolitan area are weak but improving, following steep nonfarm payroll declines during the first half of 2020. Approximately 92,300 jobs were lost during March and April 2020, and the unemployment rate spiked to 12.4 percent in April from 2.7 percent in February because of public health measures implemented to limit the spread of COVID-19. Job growth resumed in May 2020, and approximately 64,000 nonfarm jobs—about 69 percent of the jobs lost—were recovered by the end of April 2021; the unemployment rate moderated to 5.8 percent. In April 2021, approximately 17,350 initial unemployment claims were filed, much lower than the record high 76,700 claims filed in April 2020 but significantly higher than the 2,025 claims filed in April 2019 (Virginia Employment Commission and the Dragas Center for Economic Analysis and Policy, Old Dominion University). By comparison, during the Great Recession, initial unemployment claims in the metropolitan area reached a high of 10,650 claims filed during August 2008.

During the 3 months ending April 2021—

- Nonfarm payrolls in the Virginia Beach metropolitan area averaged 757,000, representing a reduction of 5,300 jobs,

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During the 3 months ending April 2021, most job losses in the Virginia Beach metropolitan area occurred in the government and the education and health services sectors.

	3 Months Ending		Year-Over-Year Change	
	April 2020 (Thousands)	April 2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	762.3	757.0	-5.3	-0.7
Goods-Producing Sectors	96.4	95.9	-0.5	-0.5
Mining, Logging, & Construction	38.7	39.6	0.9	2.3
Manufacturing	57.8	56.3	-1.5	-2.6
Service-Providing Sectors	665.9	661.1	-4.8	-0.7
Wholesale & Retail Trade	97.1	101.4	4.3	4.4
Transportation & Utilities	25.8	27.1	1.3	5.0
Information	9.9	9.1	-0.8	-8.1
Financial Activities	38.8	38.3	-0.5	-1.3
Professional & Business Services	112.5	113.9	1.4	1.2
Education & Health Services	111.3	107.5	-3.8	-3.4
Leisure & Hospitality	76.4	76.5	0.1	0.1
Other Services	31.8	31.9	0.1	0.3
Government	162.3	155.5	-6.8	-4.2
Unemployment Rate	6.0%	5.5%		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

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or 0.7 percent, from the same period a year earlier. By comparison, nonfarm payrolls expanded an average of 0.8 percent annually from 2011 through 2016, but growth accelerated to 1.1 percent a year from 2017 through 2019, as elimination of spending caps in the federal budget boosted economic activity in the metropolitan area.

- The number of nonfarm payrolls in the government sector fell by 6,800 jobs, or 4.2 percent. The local and state government subsectors decreased by 5,725 and 1,400 jobs, respectively, or 7.0 percent each, largely due to the transition to remote learning and budget shortfalls causing furloughs and layoffs. The federal government subsector expanded by 325 jobs, or 1.0 percent, from the same period a year earlier.
- Significant job reductions occurred in the education and health services sector, with a decrease of 3,800 jobs, or 3.4 percent. Recent losses, most of which are expected to be temporary, followed a long period of growth; from 2001 through 2019, the education and health services sector expanded 55 percent, the fastest growing sector in the local economy during the period. With a staff of more than 20,000, Sentara Healthcare is the largest employer in the education and health services sector and the second largest private employer in the metropolitan area.
- Many restrictions on business operations were lifted, and the wholesale and retail trade sector recovered strongly, with a gain of 4,300 jobs, or 4.4 percent. All job gains in the sector occurred in the retail trade subsector, which recovered 4,500 jobs since the 3 months ending April 2020.
- The unemployment rate declined to 5.5 percent from the 6.0-percent rate during the 3 months ending April 2020. The average unemployment rate in the metropolitan area during the past 3 months is higher than the 4.8-percent rate in Virginia and 4.9 percent in North Carolina but lower than the 6.2-percent unemployment rate nationally.

Countermeasures to stop the spread of COVID-19 had the biggest impact on the leisure and hospitality sector in the metropolitan area after vacation and business travel slowed significantly, hotel occupancy dropped, and social distancing measures closed entertainment venues and curtailed operations of bars and restaurants. At an average of 76,500 jobs during the past 3 months, payrolls in the leisure and hospitality sector are 19 percent lower than the 94,800 jobs averaged in 2019—the lowest average since 75,000 jobs in 2000. Most of the job losses in this sector are expected to be temporary, with signs that the recovery in the sector may be underway. During the 3 months ending April 2021, the sector gained 100 jobs, or 0.1 percent, year-over-year, compared with a year-over-year loss of 14,800 jobs, or 16 percent, during the 3 months ending April 2020.

In addition to strong gains in the retail trade subsector, overall job losses in the metropolitan area were partially offset by job gains in the professional and business services and the transportation and utilities sectors, which added 1,400 and 1,300 jobs, or 1.2 and 5.0 percent, respectively. The professional and business services sector is the largest private sector in the metropolitan area, accounting for 15 percent of all nonfarm payroll jobs. Scientists and engineers are drawn to the metropolitan area because of the presence of the Langley Research Center, a branch of the National Aeronautics and Space Administration whose aim is to develop and improve technology for aviation and space exploration. Several private and public entities in the metropolitan area partner with the Langley Research Center to

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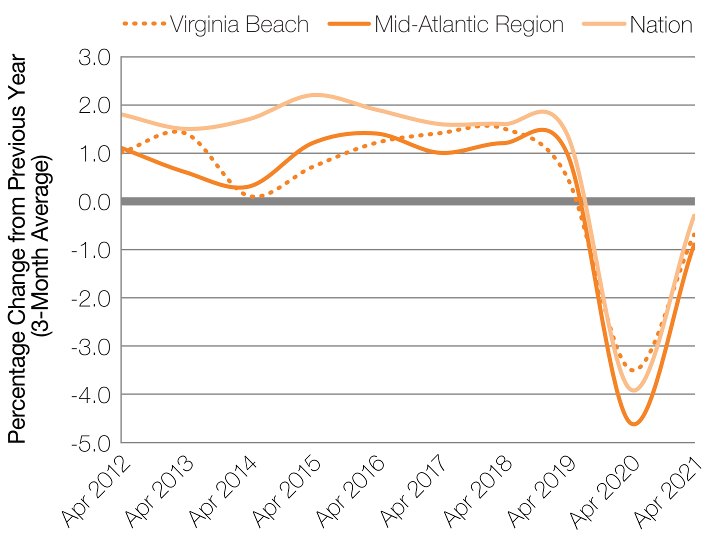
Largest Employers in the Virginia Beach Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Naval Station Norfolk	Government	55,000–60,000
Huntington Ingalls Industries, Inc.	Manufacturing	20,000–25,000
Sentara Healthcare	Education & Health Services	20,000–25,000

Note: Excludes local school districts. Data include military personnel, who are generally not included in nonfarm payroll survey data.
Sources: Hampton Roads Economic Development Alliance; United States Air Force; United States Navy

Nonfarm payrolls in the Virginia Beach metropolitan area declined at a slightly faster pace than in the nation but at a much slower rate than a year earlier.



Source: U.S. Bureau of Labor Statistics

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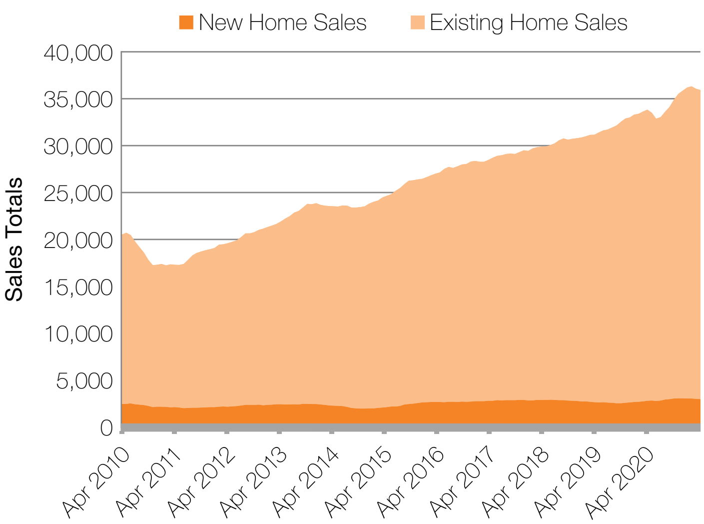
train scientists and engineers and develop new technologies, including the National Institute of Aerospace—a nonprofit research and graduate institute founded through a collaboration of several large universities. Jobs in the transportation and utilities sector represent about 4 percent of the total nonfarm payrolls in the metropolitan area. Although the sector is relatively small by share of nonfarm payroll jobs, it supports industries such as construction and trade and the professional and business services sector. The Port of Virginia provides global market access to businesses in the Mid-Atlantic region and is one of the economic pillars in the metropolitan area. In 2018, the port had a statewide economic impact of $92 billion. The significance of the Port of Virginia to the local economy continues to grow. In 2019, the port completed a $750 million expansion that resulted in a 46-percent increase in cargo capacity (Virginia Beach Economic Development). The Port of Virginia is recovering from the global slowdown in trade caused by efforts to contain the COVID-19 pandemic. In March 2021, the port set a new March record for cargo processed: 280,000 twenty-foot equivalent units, up about 30 percent from March 2020 and only 1 percent below the previous monthly high in November 2020.

Sales Market Conditions

The sales housing market in the Virginia Beach metropolitan area is currently tight, with an estimated vacancy rate of 1.7 percent, down from 2.5 percent in April 2010, when conditions were soft. Limited new home construction during the recovery from the Great Recession has reduced the available for-sale inventory, whereas a shift to net in-migration since 2018 has boosted demand for sales housing and caused the home sales market to tighten. During the 12 months ending April 2021, home sales (including new and existing single-family homes, townhomes, and condominiums) totaled 36,150, an 8-percent increase from the 33,350 homes sold a year earlier (Zonda). As of April 2021, the metropolitan area had a 1.0-month supply of homes for sale, down from a 2.3-month supply in April 2020 (Redfin, a national real estate broker). The rate of seriously delinquent home loans and real estate owned (REO) properties in the Virginia Beach metropolitan area was 4.0 percent as of April 2021, up from 1.6 percent a year earlier (CoreLogic, Inc.). The current rate is higher than the 3.8-percent for the Mid-Atlantic region and the 3.4-percent rate for the nation. The increase in seriously delinquent home loans and REO properties during the past 12 months is attributed to higher delinquencies as mortgage holders faced economic hardship during the pandemic. In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which offered forbearance for federally backed home loans for a period of 360 days. The program was extended in February 2021 for an additional 3 to 6 months.

A long period of generally rising home sales has contributed to currently tight home sales market conditions in the Virginia Beach metropolitan area.



Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

During the 12 months ending April 2021—

- New home sales totaled 2,925, an increase of 75 sales, or 3 percent, from the previous 12 months (Zonda). By comparison, new home sales averaged 2,750 annually from 2015 through 2019.
- Existing home sales remained strong, increasing by 2,700 sales, or nearly 9 percent, to 33,250, despite the low inventory of homes available for sale. Current existing home sales are more than double the low of 15,050 homes sold in 2010 but 9 percent lower than the recent high of 36,350 existing homes sold before the housing crisis in 2005.
- The average sales price for new homes rose 10 percent, to $427,300, whereas the average price for existing homes increased 18 percent, to $311,000. The current high rate of home price growth contrasts with changes in home prices in the recent past; from 2012 through 2019, new and existing home sales in the metropolitan area rose by an average of 3 percent each.
- REO home sales declined by 1,325, or 56 percent, to 1,025, representing 3 percent of total home sales, and

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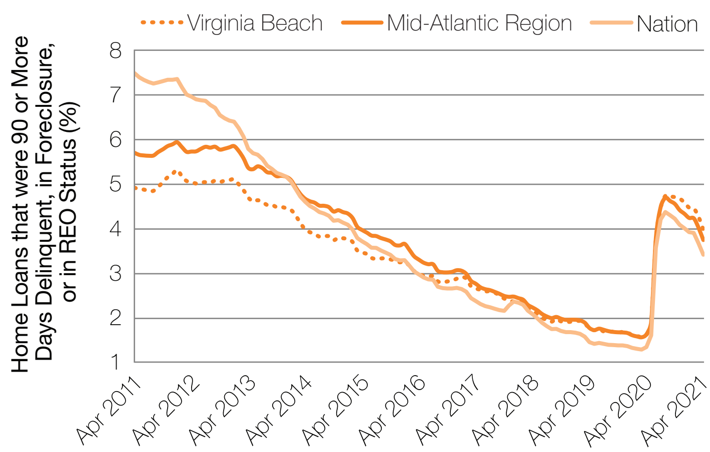
the average sales price rose 25 percent, to $226,700. In 2011, REO home sales peaked at 5,675, which accounted for 30 percent of total sales, with an average sales price of $137,400. REO home sales have since declined an average of 17 percent annually.

New home construction activity, as measured by the number of sales units permitted, has risen noticeably since the end of 2019 as builders responded to tight market conditions by boosting home production. The rate of new home construction, however, remains well below the level during the housing boom of the early to mid-2000s.

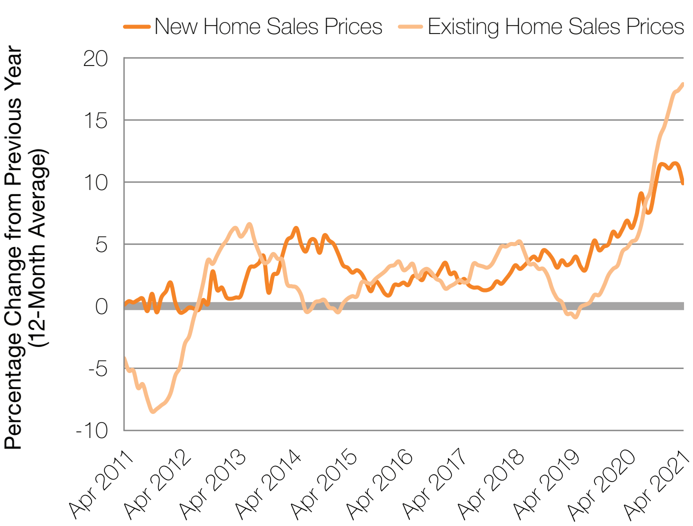
- The number of single-family homes permitted totaled 5,200 during the 12 months ending April 2021, up 20 percent from the 4,350 homes permitted during the previous 12 months (preliminary data). The current level of single-family homebuilding is 76 percent higher than the low of 2,950 homes permitted during 2011.
- Rising home sales since the end of 2010 have prompted homebuilders to ramp up construction of new homes; from 2012 through 2018, single-family homebuilding averaged 4,000 new homes permitted annually. By comparison, during the previous peak from 2000 through 2007, new home construction averaged 6,800 homes permitted annually; construction then fell to an average of 3,125 new homes permitted a year from 2008 through 2011.
- Approximately 40 percent of homes for sale that have been constructed in the metropolitan area since 2010 were built in the cities of Chesapeake and Virginia Beach. Construction is expected to start soon on The Retreat at Western Branch subdivision in the city of Chesapeake, which will be restricted to owners age 55 years and older. This resort-style community will consist of 84 two- to four-bedroom homes with prices starting in the $360,000s. In the city of Norfolk, the 96-unit The Tern at East Beach is currently under construction. The property will offer two- to three-bedroom luxury townhomes ranging in price from $420,000 to $850,000.

The percentage of home loans seriously delinquent, in foreclosure, or recently transitioned to REO status in the Virginia Beach metropolitan area has declined since the second half of 2020 but remains above the rates for the Mid-Atlantic region and the nation.



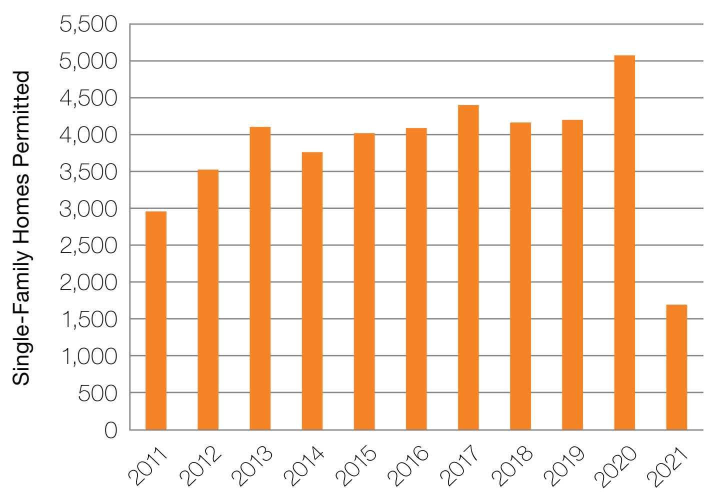
REO = real estate owned.
Source: CoreLogic, Inc.

Home sales prices in the Virginia Beach metropolitan area rose at a fast pace during the past year.



Note: Sales are for single-family homes, townhomes, and condominiums.
Source: Zonda

Single-family permitting in the Virginia Beach metropolitan area rose noticeably in 2020 in response to increased demand for new homes.



Note: Includes preliminary data from January 2021 through April 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

The apartment market in the Virginia Beach metropolitan area is slightly tight compared with softer conditions in 2010. During the first quarter of 2021, the average apartment vacancy rate was 2.5 percent—down from 3.8 percent during the first quarter of 2020 (RealPage, Inc.). By comparison, from the first quarter of 2012 through the first quarter of 2018, the apartment market was balanced, with the vacancy rate averaging 6.3 percent a year. Since then, the apartment vacancy rate has declined to the current level, largely because of faster population growth in the metropolitan area.

- During the first quarter of 2021, apartment vacancy rates in the nine RealPage, Inc.-defined market areas within the Virginia Beach metropolitan area ranged from 1.9 percent in the Chesapeake market area to 3.3 percent in the Southern Norfolk market area. Apartment vacancy rates declined most in the Portsmouth/Suffolk and the Hampton/Poquoson market areas, from 4.7 and 4.5 percent to 2.3 and 2.4 percent, respectively.
- The average monthly asking rent in the metropolitan area was $1,177 during the first quarter of 2021, a 6-percent increase from a year earlier. By contrast, rent growth averaged 2 percent annually from the first quarter of 2013 through the first quarter of 2020.
- Each of the market areas in the metropolitan area reported increases in average asking rents. During the first quarter of 2021, the average rent in the Chesapeake market area was the highest rent among all areas, at $1,314, representing an increase of 6 percent from the first quarter of 2020. Rent growth during the first quarter of 2021 ranged from 3 percent in the Southern Norfolk market area, with an average rent of $1,263, to 10 percent in the Williamsburg/Jamestown market area, with an average rent of $1,284.
- The overall rental housing market (including renter-occupied single-family homes, manufactured homes, and apartment units) is balanced, with an estimated vacancy rate of 6.3 percent, down from 7.6 percent in 2010, when the market was slightly soft.

Since the end of 2019, multifamily construction activity, as measured by the number of units permitted, has declined partly because of uncertainty related to the COVID-19 pandemic.

- During the 12 months ending April 2021, the number of multifamily units permitted totaled approximately 1,600 units, compared with 2,475 units permitted during the previous 12 months (preliminary data, with adjustments by the analyst).
- From 2011 through 2012, during the early period of economic recovery following the Great Recession, multifamily construction remained subdued, averaging 2,225 units annually from 2011 through 2012; construction then spiked 47 percent, to 3,275 units in 2013, as improving economic activity provided builders the confidence to increase construction.
- From 2014 through 2018, apartment construction moderated, averaging 2,375 units a year, but increased again in 2019

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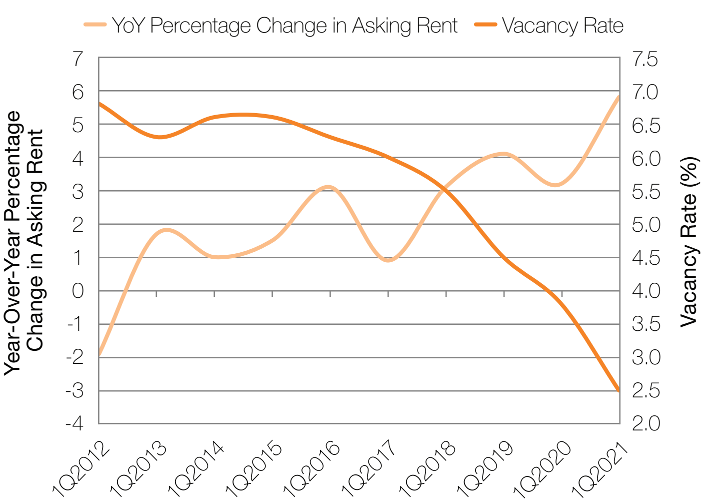
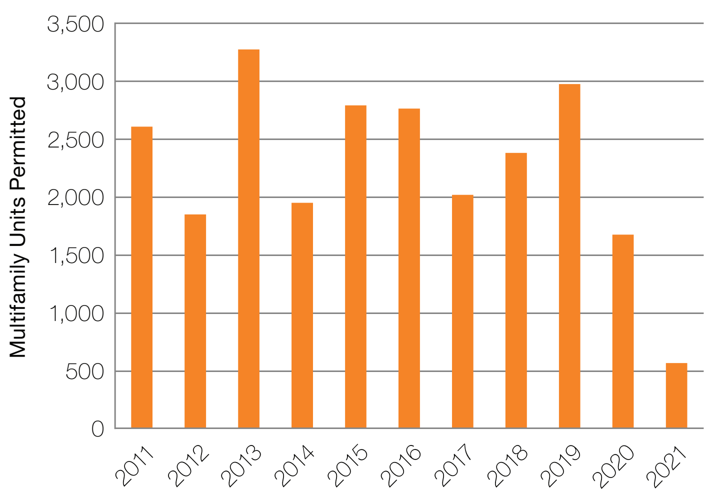
The average apartment vacancy rate in the Virginia Beach metropolitan area has been below 6.0 percent since the first quarter of 2018, and tighter market conditions have contributed to increased rent growth.



1Q = first quarter. YoY = year-over-year.
Source: RealPage, Inc.

Multifamily construction in the Virginia Beach metropolitan area declined in 2020 after 2 years of increasing activity.



Note: Includes preliminary data from January 2021 through April 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

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to 2,925 in response to stronger population growth and tightening apartment market conditions.

- Nearly one-half of apartments that have been constructed in the metropolitan area since 2010 were built in the cities of Virginia Beach and Norfolk. Recent developments completed include the 300-unit Lumen in the city of Hampton, which offers 155 studio and one-bedroom units, 135 two-bedroom units, and 10 three-bedroom units, with monthly rents starting at $1,260, $1,570, and $2,065, respectively. In Virginia Beach, The Pearl at Marina Shores is a new luxury waterfront apartment complex, which opened earlier in 2021 and is currently more than 80-percent occupied. The property offers 58 one-bedroom units, 103 two-bedroom units, and 38 three-bedroom units, with monthly rents starting at $1,865, $2,415, and $3,300, respectively.