

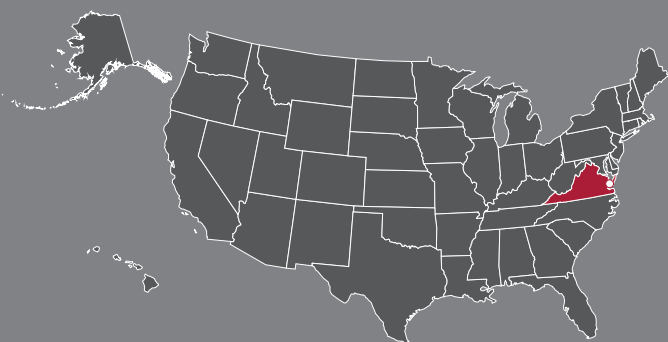
HUD PD&R Housing Market Profiles

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



Quick Facts About Virginia Beach-Norfolk-Newport News

- **Current sales market conditions: slightly soft**
- **Current rental market conditions: balanced**
- **In 2019, the direct impact of defense spending in the metropolitan area is estimated to reach \$22.1 billion, representing approximately 40 percent of economic activity in the metropolitan area (The Dragas Center for Economic Analysis, Old Dominion University).**



By Tomasz Kukawski | As of November 1, 2019

Overview

The Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area (hereafter, the Virginia Beach metropolitan area) consists of the following counties and independent cities: Currituck County and Gates County in North Carolina; Gloucester County, Isle of Wight County, James City County, Mathews County, and York County in Virginia; and Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg—all cities located in Virginia. The city of Virginia Beach, situated along the Atlantic coastline, is the largest city in the metropolitan area and 7 of the 11 most populous cities in the state of Virginia are in the Virginia Beach metropolitan area. Economic activity in the metropolitan area is heavily dependent on federal spending and to a lesser extent on the Port of Virginia and the tourism industry. Fast growth in the metropolitan area's healthcare industry has led to the education and health services sector becoming an important part of the local economy.

- As of November 1, 2019, the estimated population of the Virginia Beach metropolitan area is 1.74 million, reflecting an average increase of 3,925 people, or 0.2 percent, annually

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- since 2014. By comparison, population growth averaged 8,775, or 0.5 percent, a year from 2010 to 2014.
- Lower net natural increase (resident births minus resident deaths) and higher net out-migration from the metropolitan area have contributed to slow population growth this decade. Since 2010, net out-migration averaged 2,425 people annually, and net natural increase averaged 8,500 people annually (U.S. Census Bureau population estimates as of July 1 and estimates by the analyst).

- Since 2010, slow recovery from the Great Recession—in part due to limited federal spending in the metropolitan area as a result of the Budget Control Act of 2011—has contributed to rising net out-migration, which peaked at 6,025 people from 2015 to 2016. Since the end of 2017, higher military spending has supported more construction activity in the metropolitan area, and net out-migration has declined to an estimated average of 1,875 people annually.

Economic Conditions

The Budget Control Act of 2011 lowered federal defense spending, which slowed job growth in the metropolitan area and prolonged local recovery from the recession. Federal spending caps were recently raised when the Bipartisan Budget Act of 2018 was signed into law. Higher defense spending in the metropolitan area led to a rise in the number of construction and infrastructure improvement projects. In 2017, total nonfarm payrolls in the metropolitan area surpassed the previous high of 775,500 in 2007. Total nonfarm payrolls in the metropolitan area rose an average of 0.9 percent annually from 2010 through 2017, below the 1.4-percent average annual growth rate for the nation. During the 3 months ending October 2019, total nonfarm payrolls in the Virginia Beach

metropolitan area averaged 796,200 jobs, an increase of 4,500, or 0.6 percent, from the same 3 months a year earlier. Uncertainty around recent trade disputes and tariffs in the past year has held back local job growth due to the importance of the Port of Virginia on the area's economy. Located in the metropolitan area, the port handles approximately 15 percent of all East Coast foreign trade and in 2018 had an economic impact of \$19.9 billion on the state of Virginia (The Port of Virginia).

During the 3 months ending October 2019—

- The leisure and hospitality sector added the most jobs, 4,100, an expansion of 4.3 percent. Thus far in 2019, five new hotels

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Nonfarm payrolls rose in the Virginia Beach metropolitan area largely because of gains in the leisure and hospitality and goods-producing sectors.

	3 Months Ending		Year-Over-Year Change	
	October 2018 (Thousands)	October 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	791.7	796.2	4.5	0.6
Goods-Producing Sectors	95.4	100.9	5.5	5.8
Mining, Logging, & Construction	38.1	42.0	3.9	10.2
Manufacturing	57.3	58.8	1.5	2.6
Service-Providing Sectors	696.3	695.3	-1.0	-0.1
Wholesale & Retail Trade	104.5	103.3	-1.2	-1.1
Transportation & Utilities	25.8	24.4	-1.4	-5.4
Information	10.6	10.1	-0.5	-4.7
Financial Activities	38.9	40.2	1.3	3.3
Professional & Business Services	114.7	114.4	-0.3	-0.3
Education & Health Services	113.6	113.7	0.1	0.1
Leisure & Hospitality	94.6	98.7	4.1	4.3
Other Services	36.0	36.2	0.2	0.6
Government	157.5	154.3	-3.2	-2.0
	(Percent)	(Percent)		
Unemployment Rate	3.1	2.8		

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



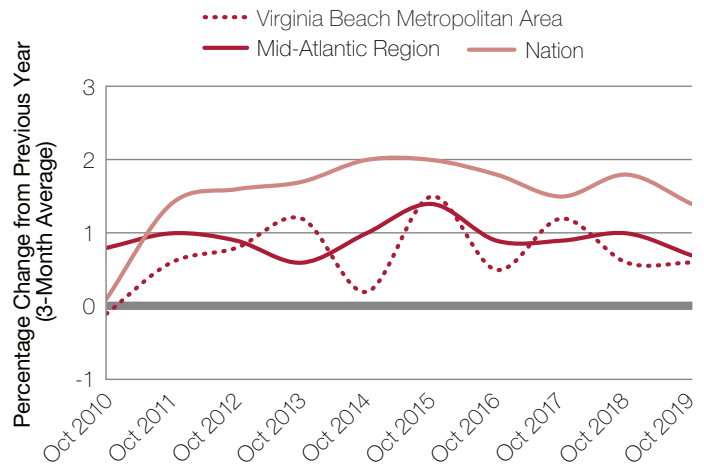
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were built, adding an estimated 600 rooms to the lodging inventory, compared with only one 90-room hotel renovation in 2018 (Dodge Data & Analytics LLC).

- Substantial growth also occurred in the mining, logging, and construction sector, which gained 3,900 jobs, or 10.2 percent. During the third quarter of 2019, the value of non-residential construction in the HMA rose 19 percent to \$1.63 billion while the value of residential construction fell 7 percent to \$1.31 billion (Dodge Data & Analytics LLC).
- Overall nonfarm payroll growth in the metropolitan area was limited by job losses in the transportation and utilities sector and the wholesale and retail trade sector, which declined by 1,400 and 1,200 jobs, or 5.4 and 1.1 percent, respectively. The freight railway company Norfolk Southern contributed to job declines in transportation by relocating its headquarters from the Virginia Beach metropolitan area to Atlanta, Georgia, resulting in a loss of approximately 700 jobs in late 2018.
- The unemployment rate in the metropolitan area was 2.8 percent, down from 3.1 percent during the same period a year earlier and is currently below the national rate of 3.5 percent. The unemployment rate in the metropolitan area has declined each year since the high of 7.6 percent in 2010.

Approximately 89,000 active duty personnel are currently stationed in the metropolitan area, down more than 20 percent from the previous peak in 2004. All branches of the military are represented in the metropolitan area, including the only NATO (North Atlantic Treaty Organization) command in the United States and the largest naval base in the world—Naval Station Norfolk—with about 57,900 active duty personnel (The United States Navy). The military is also supported by civilian employees and private contractors in the metropolitan area. The government sector, which includes civilian jobs with the military, is the largest sector in the metropolitan area with 154,300 jobs, accounting for 20 percent of all payroll jobs. During the 3 months ending October 2019, the government sector lost 3,200 jobs, or 2.0 percent. Job losses in the sector occurred mostly in the local government subsector, which decreased by 3,200 jobs, whereas 600 jobs were lost in the state government subsector, offset by a gain of 600 jobs in the federal government subsector. With approximately 23,000 employees, Huntington Ingalls Industries, Inc. is the largest private employer in the

Nonfarm payroll growth in the Virginia Beach metropolitan area has lagged national growth since the end of the Great Recession.



Note: Nonfarm payroll job growth.
Source: U.S. Bureau of Labor Statistics

metropolitan area and the largest military shipbuilding company in the nation. In 2019, Huntington Ingalls Industries, Inc. was awarded a \$15.2 billion contract to build two more Ford-class aircraft carriers and a \$22.2 billion contract to build up to nine new Virginia-class submarines. Most of the work performed under both contracts will be completed in the metropolitan area.

Largest Employers in the Virginia Beach Metropolitan Area

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

Notes: Excludes local school districts. The number of employees at the Naval Station Norfolk includes military employment of active-duty troops. The military counts do not include civilian staff or independent contractors.
Sources: The United States Navy, September 2018; Hampton Roads Economic Development Alliance, December 2018

Sales Market Conditions

The sales housing market in the Virginia Beach metropolitan area is currently slightly soft, with an estimated 2.3-percent vacancy rate, down from 2.5 percent in 2010. During the 12 months ending October 2019, new and existing home sales (including single-family homes, townhomes, and condominiums) totaled 31,200, up by 630, or 2 percent, from the previous 12 months

(Metrostudy, A Hanley Wood Company). The inventory of single-family homes, townhomes, and condominiums for sale in the metropolitan area was 3.4 months in October 2019, down from the 4.4-month supply in October 2018 (CoreLogic, Inc.). The percentage of home loans that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into

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real estate owned (REO) status declined from 2.0 percent in September 2018, to 1.7 percent in September 2019. The current rate is higher than the 1.1-percent rate for the state of Virginia and the 1.4-percent rate for the nation.

During the 12 months ending October 2019—

- The average sales price of a new home was \$395,500, a 7-percent increase from the average price a year earlier and 33 percent above the low of \$296,200 during 2010 (Metrostudy, A Hanley Wood Company).
- High prices of new homes impacted demand. New home sales declined by 620, or 23 percent, from the previous 12 months to 2,050. New home sales are 27 percent below the high of 2,825 homes sold in 2017.
- Existing home sales (including regular resales, short sales, and REO sales) totaled 29,150, an increase of 1,250, or 4 percent, from the same period a year earlier. By comparison, existing home sales fell an average of 12 percent annually, from a high of 36,300 in 2005, to a low of 15,050 in 2010, and then rose an average of nearly 11 percent annually to 26,450 sales in 2017.
- The average sales price for an existing home was \$264,800, an increase of nearly 2 percent compared with the average price during the previous 12 months. Existing home sales prices have risen an average of 3 percent annually from the low of \$211,200 during 2011.

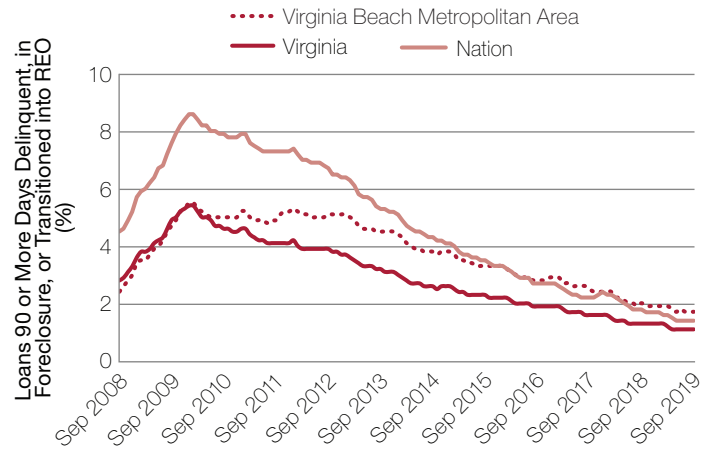
Single-family home construction activity, as measured by the number of homes permitted, has increased modestly since the

Existing home sales price growth in the Virginia Beach metropolitan area has moderated since mid-2018, whereas new home sales price growth continues to increase.



Note: New and existing home sales prices for single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company

The rate of seriously delinquent mortgages and REO properties in the Virginia Beach metropolitan area has declined to prerecession levels but is above the rates for the state of Virginia and the nation.



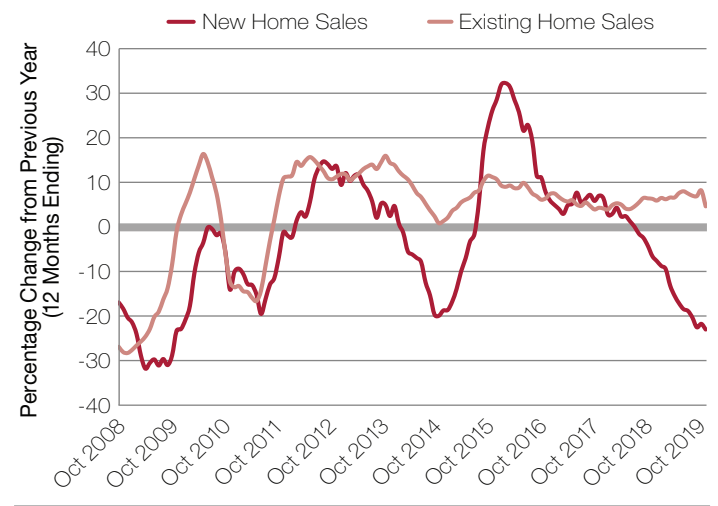
REO = real estate owned.
Source: CoreLogic, Inc.

lows following the national housing crisis, but remains well below prerecessionary levels in part because of slower population growth since 2010.

- The number of single-family homes permitted declined to 4,000 during the 12 months ending October 2019, down

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Higher prices for new homes have caused limited demand since 2016, and new home sales have recently declined in the Virginia Beach metropolitan area.



Note: New and existing home sales include single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company

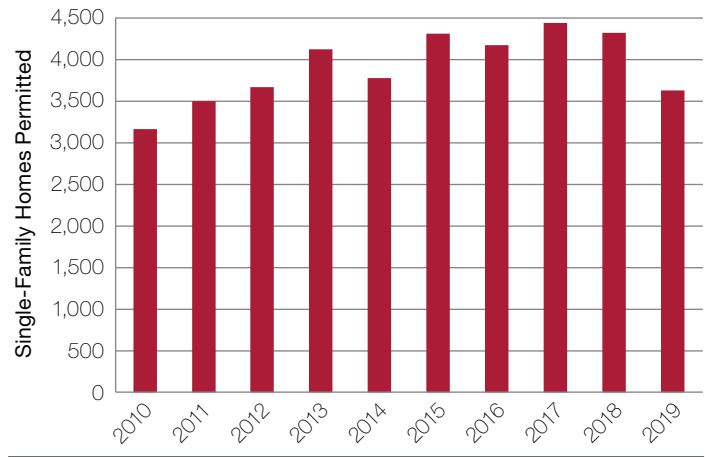


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nearly 8 percent from the 4,325 homes permitted during the previous 12 months (preliminary data).

- Single-family home construction averaged 3,900 homes permitted annually from 2010 through 2017, up from an average of 3,150 homes a year from 2008 through 2010 but far below the average of 7,275 each year from 2000 through 2007.
- Examples of new single-family home construction include the Hickory Landing at Edinburgh in the city of Chesapeake, close to Edinburgh Commons Shopping Center. When complete, the development is expected to contain 116 three- to five-bedroom single-family homes with prices starting at \$400,000. Approximately 85 percent of lots have been sold to date. In 2018, work began on Mallory Pointe at Buckroe Beach in the city of Hampton. The 41-home subdivision will feature three- to six-bedroom single-family homes with base prices ranging from \$305,000 to \$375,000. Approximately, 85 percent of lots have been sold to date.

Single-family home permitting in the Virginia Beach metropolitan area generally increased since 2010 and has stabilized near the recent peak during 2017.



Note: Includes preliminary data from January 2019 through October 2019. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Rental Market Conditions

Rental housing market conditions in the Virginia Beach metropolitan area have tightened moderately since 2010 but remain generally balanced. Low levels of multifamily construction in most years since 2010 and an increased number of renter households have generally offset a decline in military households in the metropolitan area.

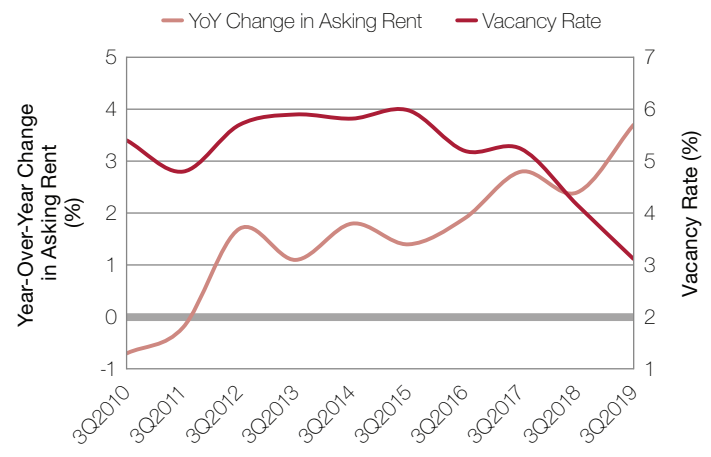
- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 6.4 percent as of November 1, 2019, a decline from 7.6 percent in 2010.
- The apartment market is slightly tight, with a 3.1-percent vacancy rate as of the third quarter of 2019, down from 4.2 percent a year earlier and from a recent peak of 6.6 percent in the first quarter of 2014 (Real Page, Inc.). The apartment vacancy rate continues to decline due in part to a gradual decrease in the number of units completed since the end of 2016.
- The average monthly apartment asking rent was \$1,096 as of the third quarter of 2019, an increase of \$39, or nearly 4 percent, from the third quarter of 2018. By comparison, from 2010 through 2017, the average monthly rent in the metropolitan area rose 1 percent annually.
- Single-family rental homes account for approximately 38 percent of the rental housing supply in the Virginia Beach metropolitan area. The vacancy rate for professionally managed three-bedroom, single-family homes for rent

was 2.6 percent in September 2019, unchanged from a year earlier, whereas the average monthly rent rose more than 6 percent to \$1,530 (CoreLogic, Inc.).

Multifamily construction activity, as measured by the number of multifamily units permitted, has decreased since 2016. Most construction occurred in the cities of Norfolk and Virginia Beach.

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Apartment rent growth accelerated since late 2018 as the apartment vacancy rate in the Virginia Beach metropolitan area continues to decline.



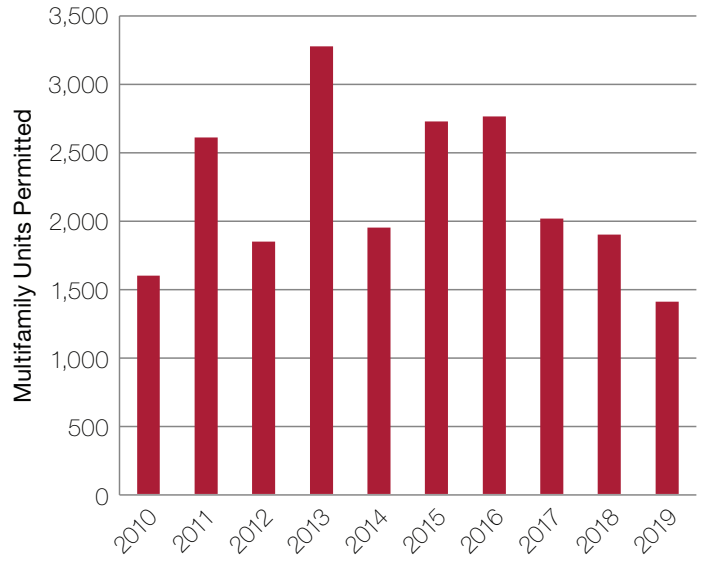
3Q = third quarter. YoY = year-over-year. Source: RealPage, Inc.



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- During the 12 months ending October 2019, approximately 1,700 multifamily units were permitted, down 20 percent from the 2,125 multifamily units permitted during the previous 12-month period (preliminary data with adjustments by the analyst).
- In line with slower population growth and a slow economic recovery since 2010, multifamily construction in the metropolitan area has declined, averaging 2,350 units annually from 2010 to 2017, compared with an average of 2,800 units permitted annually during the 2000s.
- Since 2010, multifamily permitting has been concentrated near existing population and job centers, with approximately 70 percent of units permitted in the cities of Norfolk and Virginia Beach.
- The Pinewell Station apartment complex is currently under construction in the city of Norfolk and will offer 145 one-, two-, and three-bedroom units. Monthly rents will range from \$1,300 for a one-bedroom unit to \$1,700 for a three-bedroom unit, and construction is expected to finish late in 2020. In the city of Virginia Beach, Mezzo Apartment Homes opened in 2019, with 282 studio, one-, two-, and three-bedroom units. The property is currently 60 percent occupied, and monthly rents range from \$1,185 for a studio or one-bedroom unit to \$1,845 for a three-bedroom unit.

Despite tighter apartment market conditions, multifamily construction activity in the Virginia Beach metropolitan area has been declining since 2016.



Note: Includes preliminary data from January 2019 through October 2019. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

