HUD PD&R **Regional Reports**

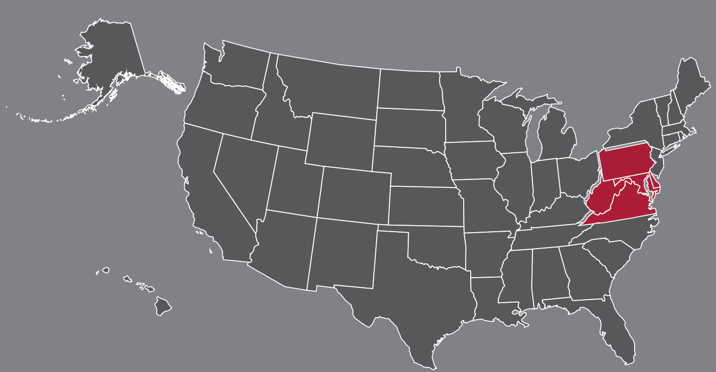
Region 3: Mid-Atlantic

Richmond, Virginia

Quick Facts About Region 3

- **Sales market conditions—**
  Third quarter 2020: mixed (balanced to slightly tight)
  Second quarter 2020: mixed (balanced to slightly tight)
  Third quarter 2019: mixed (balanced to slightly tight)

- **Apartment market conditions—**
  Third quarter 2020: mixed (soft to tight)
  Second quarter 2020: mixed (balanced to tight)
  Third quarter 2019: mixed (slightly tight to tight)



By Wendy Ip | 3rd Quarter 2020

Overview

During the third quarter of 2020, the economy of the Mid-Atlantic region continued to contract for the second consecutive quarter. Interventions that were taken to slow the spread of COVID-19, including enforcing physical distancing and discouraging nonessential travel, caused economic activity in the region to continue to decline dramatically. The gradual reopening of businesses in all states in the region and the District of Columbia since the latter half of the third quarter of 2020 had a minimal positive effect on nonfarm payrolls in the Mid-Atlantic region and jobs decreased at a faster pace than for the nation. Nonfarm payroll losses in Pennsylvania and Virginia accounted for 69 percent of total job losses in the region during the third quarter of 2020. Despite the economic downturn, sales housing market conditions in major metropolitan areas and divisions in the Mid-Atlantic region ranged from balanced to slightly tight—unchanged from the same quarter a year earlier. Lower levels of for-sale inventory and mortgage forbearances under the Coronavirus Aid, Relief, and Economic Security (CARES) Act contributed to relatively stable market conditions. Overall, home sales prices rose at a faster rate than during previous years, and the volume of sales declined, partly in response to reduced inventory. Single-

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family homebuilding activity increased significantly because of greater construction levels in all states in the region and the District of Columbia. Apartment market conditions generally held steady from a year ago in most major markets in the Mid-Atlantic region but softened in two of those markets during the third quarter of 2020. Vacancy rates rose from very low levels in most major market areas, and average rents increased in all but four of those areas. Overall, rent growth rates in more than one-half of the largest markets in the region were higher than that of the nation, for which rents remained unchanged.

- Year over year, nonfarm payrolls declined during the third quarter of 2020, mostly due to contractions in the leisure and hospitality and the education and health services sectors in both Pennsylvania and Virginia. Wholesale and retail trade sector jobs also declined notably in both states, continuing a period of losses that began during the third quarter of 2016.
- Home sales in nearly all markets and states in the region decreased during the 12 months ending August 2020, with the rate of decline in sales in the region faster than that of the nation. The average home sales price rose in the region at a faster pace than during the previous 12-month period.
- Multifamily construction declined in the region during the third quarter of 2020, mostly because of reduced development in the District of Columbia, Pennsylvania, and Virginia. The region accounted for 6 percent of total multifamily development in the nation—unchanged from the third quarter of 2019.

Economic Conditions

Nonfarm payroll jobs in the Mid-Atlantic region decreased during the third quarter of 2020, continuing the economic contraction that began in the second quarter of 2020. Nonfarm payrolls in the region averaged 13.8 million jobs during the third quarter of 2020, declining sharply by nearly 1.1 million jobs, or 7.2 percent, from the third quarter of 2019—slightly faster than the 7.0-percent decline nationally. The loss of nonfarm payrolls in the region contrasts with the moderate growth that prevailed from the second quarter of 2010 through the first quarter of 2020—when year-over-year job growth averaged 0.7 percent. Job losses in the region occurred in all sectors of the economy during the third quarter of 2020, with the greatest declines in those sectors that rely heavily on nonessential, in-person interactions because of the remaining effects of countermeasures to slow the spread of COVID-19. As a result, the leisure and hospitality and the education and health services sectors contracted more significantly, as sector jobs were not as easily adaptable to physical distancing. Regionwide job losses in both sectors were led by Pennsylvania and Virginia, accounting for more than two-thirds of the decline combined. In Pennsylvania, a combined total of 11 casinos, hotels, and restaurants were either temporarily or permanently closed during the third quarter of 2020, leading to 1,689 layoffs, including 539 permanent layoffs at the Valley Forge Casino Resort. In the education and health services sector, job losses occurred in virtually all subsectors and industries, with the greatest share of losses in the ambulatory and healthcare services industry; that industry includes outpatient clinics and private practice medical offices, all of which were limited to emergency response only. Considerable losses also occurred in the social assistance industry, which includes home- and child-care aids, because of physical distancing measures. In Pennsylvania, the permanent closure of Morrison Healthcare and layoffs at Aveanna Healthcare led to a combined 134 jobs lost during the third quarter of 2020, whereas the closure of the George Washington University Medical Faculty Associates in Virginia led to 117 jobs lost.

The wholesale and retail trade sector also lost a significant number of jobs during the third quarter of 2020, continuing a period of decline that began during the third quarter of 2016. Greater demand for e-commerce was compounded by physical distancing measures and the temporary closures of nonessential brick-and-mortar retail. Approximately 78 percent of job losses in the wholesale and retail trade sector was due to declines in retail trade subsector jobs, two-thirds of which occurred in Pennsylvania.

The least affected in terms of number of jobs lost were the financial activities and the information sectors. Most employees in the financial activities sector have been able to work remotely, and banking institutions were deemed essential, mitigating losses. Greater internet traffic at data centers—including those in Loudon County, Virginia—helped to offset job losses in the information sector. Industry investments have also continued despite the contraction in the economy, including the $64 million expansion of Microsoft Corp. in Fairfax County that will add 1,500 jobs when completed in the summer of 2021.

The average unemployment rate in the region rose to 8.6 percent during the third quarter of 2020—up from 3.9 percent a year earlier but lower than the national rate of 8.9 percent. Every state in the region and the District of Columbia had large increases in the unemployment rate. Areas with a greater proportion of residents with federal government jobs, including the District of Columbia and Maryland, had the smallest percentage point increases in the unemployment rate. The unemployment rate in the District of Columbia rose the least—by 3.3 percentage points, to 8.8 percent—followed by Maryland—by 3.7 percentage points, to 7.3 percent—the second lowest unemployment rate among states in the region. Virginia had the lowest unemployment rate in the region, at 6.8 percent—up 4.0 percentage points. West Virginia, Pennsylvania, and Delaware all had unemployment rates that either matched or exceeded the national rate, with rates of 8.9, 10.4, and 9.3 percent, respectively.

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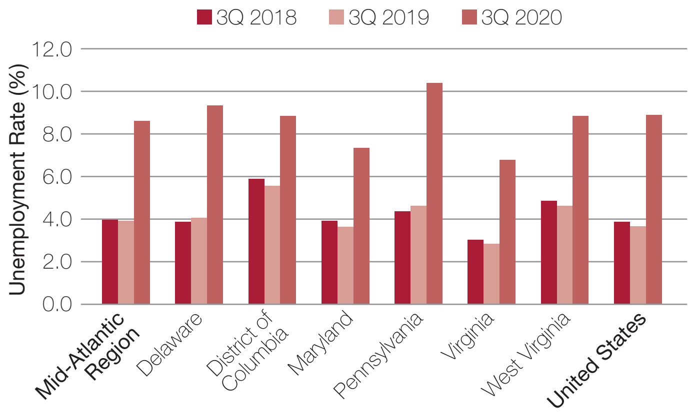
During the third quarter of 2020—

- Pennsylvania and Virginia lost 505,900 and 234,500 jobs, or 8.3 and 5.8 percent, respectively. The leisure and hospitality sector accounted for nearly one-third of job losses in both states, where nonfarm payrolls in the sector were down by a combined 250,100 jobs, or 24 percent. The health care and social assistance subsector contracted by 48,900 and 34,000 jobs, or 4.6 and 7.4 percent, in Pennsylvania and Virginia, respectively.
- Nonfarm payrolls in the District of Columbia and Maryland decreased by 53,500 and 182,800 jobs, or 6.7 and 6.6 percent, respectively. Job losses in the leisure and hospitality sector contributed to 32 percent of the decline in Maryland and nearly 67 percent of the decrease in the District of Columbia, a major tourist destination in the nation. Some of the jobs lost in the District of Columbia were offset by 400 jobs added in the finance and insurance industry.
- In Delaware and West Virginia, nonfarm payrolls declined by 40,800 and 49,900 jobs, or 8.7 and 6.9 percent, respectively. The decrease was led by the leisure and hospitality sector, accounting for nearly one-third of job losses in both states. The accommodation and food services industry in both states was the most affected by the pandemic, as Delaware and West Virginia lost 9,000 and 14,000 jobs, or 19.4 and 20.7 percent, respectively, in the industry.

The unemployment rate rose in all the states in the Mid-Atlantic region during the third quarter of 2020.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

Nonfarm payroll jobs in the Mid-Atlantic region declined in all 11 sectors during the third quarter of 2020.

	Third Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	14,884.9	13,818.0	-1,066.9	-7.2
Goods-Producing Sectors	1,795.5	1,711.2	-84.3	-4.7
Mining, Logging, & Construction	786.7	765.8	-20.9	-2.7
Manufacturing	1,008.8	945.3	-63.5	-6.3
Service-Providing Sectors	13,089.4	12,106.9	-982.5	-7.5
Wholesale & Retail Trade	1,895.1	1,785.9	-109.2	-5.8
Transportation & Utilities	585.8	549.6	-36.2	-6.2
Information	224.1	199.5	-24.6	-11.0
Financial Activities	797.1	784.7	-12.4	-1.6
Professional & Business Services	2,366.5	2,235.8	-130.7	-5.5
Education & Health Services	2,632.9	2,467.4	-165.5	-6.3
Leisure & Hospitality	1,540.1	1,167.0	-373.1	-24.2
Other Services	705.7	646.2	-59.5	-8.4
Government	2,342.1	2,270.7	-71.4	-3.0

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

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight in the Mid-Atlantic region during the third quarter of 2020—unchanged from the third quarter of 2019. A low supply of homes on the market and mortgage forbearances under the CARES Act contributed to stable market conditions despite the contraction in the economy. During the 12 months ending September 2020, the inventory of homes available for sale in the Mid-Atlantic region declined 9 percent, to an average of 126,600 homes—a slower rate of decline than the 10 percent for the nation (CoreLogic, Inc.). Overall, home sales prices rose at a faster rate than during the

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previous year and the volume of sales declined, partly in response to reduced inventory. The average home sales price (which includes single-family homes, townhomes, and condominiums) in the region increased 5 percent, to $316,600, during the 12 months ending August 2020—up from 1-percent growth during the previous 12-month period (Zonda, with adjustments by the analyst). Most of the increase in sales prices resulted from accelerated price growth during the 3 months ending May 2020, when home prices rose by 9 percent compared with a year ago, partly in response to a 12-percent reduction in available inventory during the same period. Part of the sharp decrease in inventory occurred because physical distancing orders caused some sellers to take their homes off the market or postpone listing their homes. Despite the increase in home prices, the average home sales price in the region was 5 percent lower than the national average of $333,400. Average home sales prices increased during the 12 months ending August 2020 in all five states of the region and the District of Columbia. The District of Columbia had the highest average home price in the region, at $677,200—more than double the national average—but increased at a relatively slower pace, up only 3 percent during the 12 months ending August 2020. Overall, average home prices rose in all metropolitan areas and divisions cited in this report, ranging from a 2-percent increase in Pittsburgh and Morgantown to a 9-percent increase in Virginia Beach.

The number of homes sold in the Mid-Atlantic region decreased 8 percent during the 12 months ending August 2020—a faster rate of decline than the 5 percent for the nation; this home sales rate followed a 2-percent increase in the region during the previous 12-month period (Zonda, with adjustments by the analyst). The rate of decline in home sales during the 12 months ending August 2020 was greatest in the state of Pennsylvania, down 14 percent. Pennsylvania also accounted for the largest share, 68 percent, of the regionwide decrease in sales. Virtually all the statewide decline in sales occurred in the Philadelphia and Pittsburgh metropolitan areas. West Virginia had the second fastest decline in home sales in the region, down 13 percent, which was partly offset by a 4-percent increase in home sales in the Morgantown metropolitan area. Home sales also declined at a fast pace in Maryland, down 9 percent, nearly one-half of which was because of a 9-percent decrease in home sales in the Baltimore metropolitan area. A decline in sales in the Washington-Arlington-Alexandria metropolitan area, which includes the District of Columbia and portions of three states in the region, contributed to a 4-percent reduction in sales in the District of Columbia. In Virginia, home sales were nearly unchanged from a year ago, as growth in the Virginia Beach metropolitan area offset declines throughout the remainder of the state. Delaware was the only state in the region to have increased sales, up 2 percent from a year ago. The 8-percent increase in the Dover metropolitan area accounted for almost three-fourths of the increase in Delaware.

The number of distressed home sales (real estate owned [REO] and short sales) in the region declined during the past year, as stable sales market conditions led to fewer of those properties in the for-sale inventory. Distressed home sales fell 27 percent during the 12 months ending August 2020 after a 16-percent decrease during the previous 12-month period. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region increased, however, to 4.7 percent in August 2020—up from 1.7 percent in August 2019 but down from a peak of 6.2 percent in December 2009. The national percentage increased from 1.4 percent in August 2019 to 4.4 percent in August 2020. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in the District of Columbia and Maryland, at 5.0 and 5.9 percent, respectively. The regional rate partly reflects a lower rate in Virginia and West Virginia, at 3.9 and 3.8 percent, respectively.

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Home prices increased in all major markets in the Mid-Atlantic region, whereas home sales decreased in all but three of those areas.

	12 Months Ending	Number of Homes Sold			Price			
		2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Morgantown	August	1,400	1,450	4	AVG	234,300	239,200	2
Dover	August	3,000	3,225	8	AVG	232,600	240,200	3
Baltimore	August	51,100	46,550	-9	AVG	310,700	330,500	6
Philadelphia	August	94,000	80,600	-14	AVG	278,206	291,100	5
Pittsburgh	August	33,800	24,100	-29	AVG	209,200	213,800	2
Richmond	August	21,900	21,650	-1	AVG	283,400	294,100	4
Virginia Beach	August	31,550	33,050	5	AVG	264,400	287,500	9
Washington-Arlington-Alexandria	August	106,700	98,600	-8	AVG	473,400	498,700	5

AVG = average.
Notes: All figures are rounded. Data include new and existing single-family homes, townhomes, and condominiums.
Source: Zonda, with adjustments by the analyst

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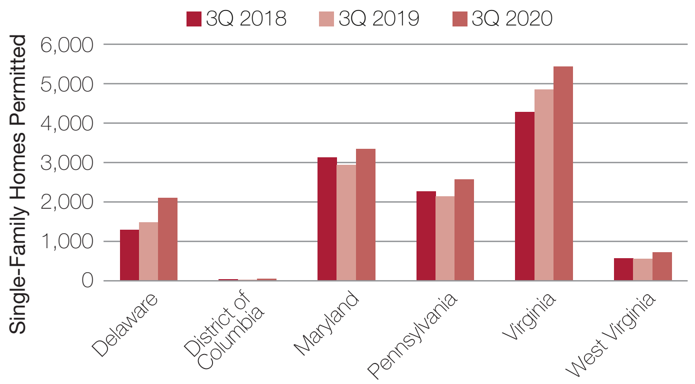
During the third quarter of 2020 (preliminary data)—

- In response to low levels of inventory and strong demand, single-family homebuilding activity, as measured by the number of homes permitted, increased 18 percent in the Mid-Atlantic region from a year ago, to 14,150 homes. Homebuilding in the nation also increased, up 21 percent.
- Approximately 54 percent of the increase in homebuilding in the region occurred in the states of Delaware and Virginia, where single-family home construction was up by 610 and 580 homes, or 41 and 12 percent, respectively. Construction in the Dover metropolitan area was up 44 percent and accounted for nearly one-fourth of the increase in Delaware, whereas homebuilding in the Richmond and Virginia Beach metropolitan areas was up 11 percent each and accounted for 45 percent of the increase in Virginia.
- The number of single-family homes permitted increased in Maryland and Pennsylvania by 400 and 430 homes, or 14 and 20 percent, respectively. Single-family construction was up in the Baltimore metropolitan area by 240 homes, or 20 percent, and by 110 homes, or 50 percent, in the Pittsburgh metropolitan area.
- Single-family homebuilding in the District of Columbia and West Virginia increased by 30 and 160 homes, or 144 and 29 percent, respectively. Increased single-family home construction in the Washington-Arlington-Alexandria metropolitan area—which was up by 250 homes, or 8 percent—accounted for some of the gain in the District of Columbia, whereas the increase in West Virginia occurred broadly outside the larger metropolitan areas, as development in Morgantown was nearly unchanged.

Homebuilding activity increased in the Mid-Atlantic region during the third quarter of 2020 because of greater construction levels in five states in the region and the District of Columbia.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the major market areas in the Mid-Atlantic region ranged from soft to tight during the third quarter of 2020. Conditions were nearly unchanged from a year ago in all major markets in the region except for the Central D.C. and North Arlington areas, where conditions softened. Apartment vacancy rates increased in all but two major market areas cited in this report, whereas rents increased in all but four. Vacancy rates for six of the largest areas in the region were at or below the national rate of 4.3 percent during the third quarter of 2020 (RealPage, Inc.). Aside from the four areas within the Washington-Arlington-Alexandria metropolitan area, average rents increased from 1 to 8 percent in all other major market areas in the region; the average rent for the nation remained nearly unchanged, at $1,436. The highest increase in the average rent in the Mid-Atlantic region was an 8-percent gain in the Dover metropolitan area, which also had the lowest vacancy rate in the region during the third quarter of 2020, at 1.2 percent, followed by Virginia Beach, at 2.5 percent. Rents increased at a fast pace in both the Richmond and Virginia Beach metropolitan areas, both up 4 percent. In the remaining areas outside the Washington-Arlington-Alexandria metropolitan area, the average rent rose moderately—1 to 2 percent—partly because of rising vacancies. In the Washington-Arlington-Alexandria metropolitan area, rents for the four areas cited in this report declined from 2 to 6 percent and vacancy rates rose from 1.3 to 4.1 percentage points, as market conditions transitioned from tight conditions a year ago to either generally soft or balanced. The Central D.C. market area softened the most, with a 6-percent decline in rents and a 4.1-percentage point increase in the vacancy rate, to 7.4 percent, as job losses restricted demand for newer luxury units—a similar situation as in the North Arlington area. Concessions as a percentage of asking rent increased in all areas cited in this report except for Dover, ranging from a 0.6-percentage point increase in Downtown Silver Spring to 3.4 percentage points in North Arlington. Concessions generally rose in the nation, averaging a 2.3-percentage point increase.

The number of apartment developments in the pipeline remained generally elevated in the Baltimore, Philadelphia, and Washington-Arlington-Alexandria metropolitan areas during the third quarter of 2020—a trend that had started in the early to mid-2010s. The number of multifamily units in planning in the Baltimore metropolitan area during the third quarter of 2020 totaled 9,600 units—a number that includes attrition and units in planning that are likely to be delivered—and remains elevated at 59 percent higher than levels during 2015, although the number is down 11 percent from a year ago (Delta Associates). In the city of Philadelphia,

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Apartment vacancy rates increased in all but two major market areas in the Mid-Atlantic region during the third quarter of 2020, whereas rents increased in all but four areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2019 (%)	3Q 2020 (%)	Percentage Point Change	3Q 2019 ($)	3Q 2020 ($)	Percent Change
Dover	Tight	2.1	1.2	-0.9	1,124	1,211	8
Baltimore	Slightly Tight	4.2	4.3	0.1	1,371	1,379	1
Philadelphia	Tight	3.1	3.3	0.2	1,388	1,422	2
Pittsburgh	Slightly Tight	3.1	4.3	1.2	1,184	1,204	2
Richmond	Tight	3.5	3.6	0.1	1,121	1,169	4
Virginia Beach	Tight	3.0	2.5	-0.5	1,106	1,150	4
Washington-Arlington-Alexandria	Balanced	3.4	4.7	1.3	1,837	1,804	-2
Washington, D.C.—Central DC	Soft	3.3	7.4	4.1	2,562	2,414	-6
Washington, D.C.—Downtown Silver Spring	Balanced	3.9	5.3	1.5	1,966	1,876	-5
Washington, D.C.—North Arlington	Slightly Soft	3.0	6.1	3.1	2,478	2,328	-6

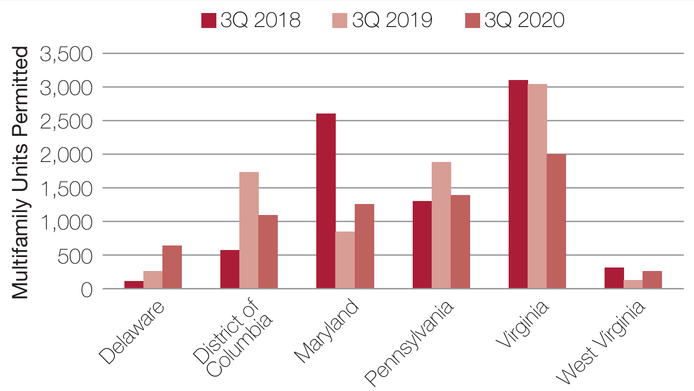
3Q = third quarter. D.C. = District of Columbia.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

where 40 percent of the Philadelphia metropolitan area apartment development is occurring, units in planning declined 7 percent, to 10,400 units, from a year ago but is still 55 percent higher than levels in 2015. The number of units in planning in the Washington-Arlington-Alexandria metropolitan area totaled 74,600 units as of the third quarter of 2020—up 7 percent from 69,900 units during the third quarter of 2019. The District of Columbia accounted for 22 percent, or 16,800 units, of the total pipeline in the Washington-Arlington-Alexandria metropolitan area—up 2 percent from a year ago. Developments in the pipeline encompass those in all stages of planning: from developments that are moving toward final approvals and that may begin construction within the next 36 months to those in the conceptual stage that may take several years to come to market.

During the third quarter of 2020 (preliminary data)—

- Multifamily construction activity, as measured by the number of multifamily units permitted, declined 16 percent, or by 1,250 units, in the Mid-Atlantic region, following a 1-percent decrease during the third quarter of 2019, as vacancy rates rose and developments were delayed due to difficulties in obtaining financing during the pandemic.
- Multifamily construction in the District of Columbia and Virginia was down by 640 and 1,050 units, or 37 and 34 percent, respectively. Construction in the Washington-Arlington-Alexandria metropolitan area decreased by 1,300 units, or 38 percent, and contributed to those losses. Building activity in the Richmond metropolitan area was down by 630 units, or 52 percent, whereas construction increased in the Virginia Beach metropolitan area by 490 units, or a more-than-seven-fold increase.
- A decline in multifamily construction in Pennsylvania—where permitting was down by 500 units, or 26 percent—contributed to the overall decrease in the region, part of which might have resulted from no reporting of multifamily building permits for Philadelphia County in September 2020. Philadelphia County typically accounts for at least one-half of total multifamily construction in the state. In the Pittsburgh metropolitan area, multifamily construction was unchanged, at 180 units permitted.
- In Delaware, Maryland, and West Virginia, multifamily construction increased by a combined 920 units, or 74 percent. The Dover metropolitan area accounted for 85 percent of the increase in Delaware, up by 320 units. In Maryland and West Virginia, increased construction occurred broadly throughout both states, as construction in the Baltimore metropolitan area was up by only 25 units, whereas the Morgantown metropolitan area remained unchanged, with no units permitted.

Multifamily construction activity declined in the Mid-Atlantic region during the third quarter of 2020 because of reduced construction in the District of Columbia, Pennsylvania, and Virginia.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey