The Rent is Too Damn High: Housing in Hampton Roads

THE RENT IS TOO DAMN HIGH: HOUSING IN HAMPTON ROADS

"It is hard to argue that housing is not a fundamental human need. Decent, affordable housing should be a basic right for everybody in this country. The reason is simple: Without stable shelter, everything else falls apart."
Matthew Desmond in Evicted: Poverty and Profit in the American City

Hampton Roads appears to be a paradox with regard to economic growth. The region boasts sandy beaches, historical attractions, cultural events and festivals, and an industrial base that supports the national defense of the nation. While the region has lagged the Commonwealth and nation with regard to growth in Gross Domestic Product (GDP), public and private sector leaders continue to tout the "high quality" of life in the region. Yes, the region is heavily dependent on defense spending and faces the challenge of sea level rise, but its lackluster economic performance is, in part, because we are not telling our story well. If we can only convince employers and employees of the affordability of the region, then we could raise the region's attractiveness. We just need to market ourselves better and growth will follow.

When one compares Hampton Roads to Northern Virginia, this story appears to gain traction. The median rent for all bedrooms and property types in Washington, D.C., was $2,440 in May 2022, 30.1% higher than the median rent in Virginia Beach.[1] The Zillow Home Value Index for Arlington, Va., in May 2022 was $816,610, multiples of that in Chesapeake ($357,733), Newport News ($246,834), Norfolk ($268,773), and other cities in Hampton Roads. Rents are higher in the Washington, D.C., metropolitan area and average apartment sizes are smaller, so renters are paying more for less.

If apartment rents and housing values were the only side of the affordability story, then Hampton Roads would be viewed favorably when compared to Northern Virginia and other major metropolitan areas in neighboring states. There are, however, two sides to every coin. Cost is one side of the proverbial coin; ability to pay is the other side. Instead of only examining the cost of housing, we need to compare the cost of housing to household income. The housing cost burden, which is the ratio of housing expenses to household income, provides a more complete picture of housing affordability.

1 Virginia Beach, Virginia Rental Market Report, Zillow Inc. June 4, 2022.

For Hampton Roads, rents and home prices must be compared to household incomes, and, when we do so, the picture that emerges stands in stark contrast to the story that Hampton Roads is an affordable place to live for many of its residents.

The U.S. Department of Housing and Urban Development (HUD) counts households as cost burdened and severely cost burdened if more than 30% and 50%, respectively, of their household income goes to pay for housing. Between 2015 and 2019, there were approximately 654,000 households in Hampton Roads. Thirty-five percent of the households in the region (about 229,000) spent more than 30% of their household income on housing. Of the approximately 229,000 housing cost-burdened households, about 97,000 were severely cost burdened, spending more than 50% of their household income on housing. In other words, about 1 in 3 households in the region paid more than 30% of their income for housing while 1 in 7 households paid more than

50% of their income for housing. When compared to its peers, Hampton Roads ranks near the bottom, only ahead of Northern Virginia in terms of housing affordability.

When households spend a greater percentage of their income on housing, there are fewer dollars to spend on groceries, health care, and other necessities. Cost-burdened households are less able to weather negative life events, such as losing a job or the death of a loved one, and have an increased chance of being evicted or going bankrupt. If the "rent is too damn high," it should be no surprise that some residents move (or attempt to move) in search of increased affordability and improved job opportunities.[2]

Kwamane Woodhouse, a resident of Virginia Beach, experienced the increasing cost of housing in Hampton Roads. Recently, the rent on his one-bedroom apartment increased from $1,550 to $1,668, an increase of 7.6%.[3] When he searched for cheaper apartments, he soon realized that he was, in effect, "locked in." A new apartment would require the payment of application fees, administrative fees, security deposit, and first (and perhaps more) month's rent. Finding somewhere cheaper to live would mean leaving the area entirely. His story is not unique, and a cursory search of social media provides many other examples of the region's residents struggling to find an affordable place to live.

The question of housing affordability drives squarely at the question of regional competitiveness. A 2020 study by the Joint Legislative Audit & Review Commission (JLARC) found that Hampton Roads had the highest percentage of cost-burdened households in the Commonwealth.[4] Jason El Koubi, director of the Virginia Economic Development Partnership (VEDP), recently noted that housing affordability is key to attracting new firms. He recently recounted how affordability influences whether a firm decides to locate in Virginia. "During the recruitment process, the company expressed concerns around the housing inventory within the community that would be required to accommodate the growth from a project of its scale. Virginia was ultimately eliminated for various different reasons, but we believe workforce housing issues were a chief concern."[5]

In this chapter, we examine housing affordability from several different angles. We start by looking at how housing values have changed in Hampton Roads over the last two decades and what may have driven these changes. We follow this with a closer look at Hampton Roads housing affordability, how we compare to other regions, and some final thoughts on where to go from here. We focus on the time frame before the Covid-19 pandemic due to the availability of data. However, the rising prices in the housing and rental markets since its onset, along with the uneven labor market recovery, likely only exacerbated local housing challenges.

2 Tiebout, Charles. 1956. "A Pure Theory of Local Expenditures," *Journal of Political Economy*, University of Chicago Press, vol. 64, pages 416-416.
3 Jones, Kelsey. 'It's not sustainable': Renters face tough decisions as rent prices rise in Hampton Roads. WTKR, Feb. 17, 2022.
4 "Affordable Housing in Virginia." Joint Legislative Audit and Review Commission. 2020.
5 Freehling, Emily. "Hitting a brick wall." *Virginia Business.* March 30, 2022.

How Did We Get Here? Single-Family Housing Prices in Hampton Roads

In nominal terms, the median sales price for an existing home in Hampton Roads increased from $99,900 in 2000 to $279,000 in 2021. We can break down the market for existing single-family homes in Hampton Roads over the past two decades into three distinct periods: rising home prices from 2000 to 2007 (123% increase); decreasing home prices from 2007 to 2011 (19% decline); followed by a period of rising home prices through 2021 (55% increase) (Graph 1). Even while median sales prices continued to increase in the first half of 2022, the open question is whether we are entering an era of slower price growth (or an outright contraction) due to rising interest rates and slowing economic growth.

We observe similar price trends in neighboring metropolitan areas, at the state level for Virginia and North Carolina, and at the national level in Table 1. The All-Transactions Home Price Index (HPI) reported by the Federal Housing Finance Agency (FHFA) is a broad measure of the movement of single-family house prices. Compared to the Commonwealth and the nation, the HPI increased more rapidly in Hampton Roads prior to the Great Recession. The region then felt steeper declines than many peer or aspirant metros, Virginia, and the United States in the aftermath of the Great Recession. While prices in Hampton Roads increased from 2012 to 2021, other regions saw more rapid increases in economic growth, and thus steeper increases in the demand for and prices of single-family housing.

TABLE 1

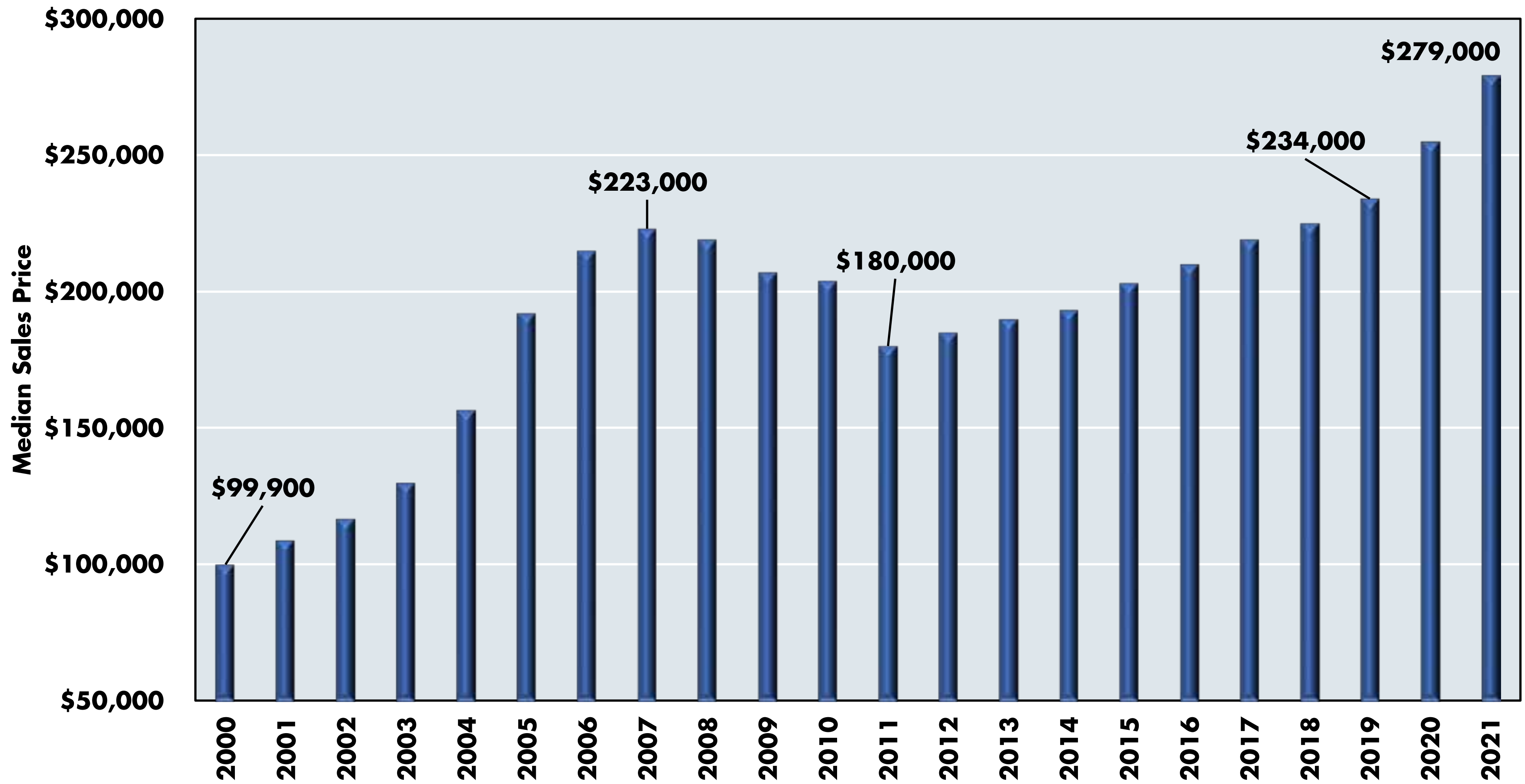
PERCENT CHANGE IN ALL TRANSACTIONS FHFA PRICE INDEX SELECTED METROPOLITAN AREAS, NORTH CAROLINA, VIRGINIA, AND THE UNITED STATES 2000 TO 2021

Metro	2000-2007	2007-2012	2012-2021
Charleston, SC	75.9%	-19.7%	89.5%
Charlotte, NC	35.1%	-12.7%	85.5%
Durham-Chapel Hill, NC*	34.1%	-3.8%	66.3%
Greenville, SC*	29.8%	-3.9%	66.4%
Jacksonville, FL	100.9%	-35.9%	99.9%
Nashville, TN*	41.7%	-6.8%	101.9%
Raleigh, NC	32.4%	-6.3%	72.1%
Richmond, VA	79.2%	-18.4%	54.8%
Hampton Roads, VA	**114.2%**	**-18.3%**	**33.9%**
Washington, DC*	127.0%	-21.7%	50.7%
North Carolina	40.0%	-10.6%	62.3%
United States	60.2%	-17.6%	67.8%
Virginia	97.1%	-16.0%	41.8%

Source: Federal Housing Finance Agency. The HPI is a weighted, repeat-sales index, showing the average price change in repeat sales or refinancing on the same homes. The index incorporates repeat mortgage transactions on single-family homes whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975. 1st quarter 1995 = 100 and data are not seasonally adjusted. Data represent annual averages of the quarterly index. * Denotes areas where the lowest post-recession value of the HPI was in 2011.

GRAPH 1

MEDIAN SALES PRICE OF EXISTING HOMES
HAMPTON ROADS, 2000-2021



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

Explaining Single-Family Housing Price Trends in Hampton Roads

Why did home prices rise so rapidly in Hampton Roads prior to the Great Recession? Recall that the economy of the region rests on three pillars: defense, the Port of Virginia, and the tourism and hospitality industry. Each of these pillars experienced significant growth in the years prior to the Great Recession. However, robust economic growth, by itself, does not fully explain the rapid increase in single-family housing prices during this period.

As illustrated in Graph 2, the proportion of conventional loans (any mortgage loan not insured or guaranteed by the government) in Hampton Roads increased dramatically prior to the Great Recession, from more than 1 in 3 loans in 2000 to almost 8 out of 10 loans in 2005. Some buyers undoubtedly could have also qualified for a Veterans Administration (VA) or Federal Housing Administration (FHA) loan; however, the declining cost of conventional loans incentivized them to switch. Loan standards also declined during this period with the rise of "no documentation loans" and "NINJA loans" (No Income, No Job, No Assets) in subprime mortgage markets. Those seeking loans and those originating them were incentivized to move funds as quickly as possible, knowing that the loans would be securitized ("bundled") and sold on financial markets. Soon, these securities became known as "toxic," not necessarily because the underlying homes had depreciated in value, but because markets were not able to accurately judge whether the securities were what they claimed to be.[6]

The decade following the Great Recession was one that many real estate professionals and homeowners in Hampton Roads would prefer to forget. Tightening loan standards and foreclosed properties weighed down a recovery in single-family home prices. The passage of the Budget Control Act of 2011, the sequestration of defense spending in Fiscal Year 2013, and further limits on federal discretionary spending meant that defense spending in the region was essentially flat from 2007 to 2017. In this environment, it was no surprise that the recovery in home prices was relatively tepid. In 2018, a full decade after the start of the financial crisis, single-family home prices finally eclipsed the previous peak observed in 2007.

The most recent period of price growth has been driven by constrained supply and increasing demand. Regional economic growth ticked upward in the latter half of the last decade as defense spending increased, the Port of Virginia continued to see increases in traffic, and the tourism and hospitality industry saw record numbers of hotel guests. At the same time, the Federal Reserve maintained a highly accommodative monetary policy stance. In 2000, the annual average 30-year fixed mortgage rate was 8.05%. In 2010, the average 30-year rate was 4.69%. In 2019, nearing the end of the longest peacetime economic expansion in U.S. history, the average 30-year rate was 3.9%, falling to an average of 3.11% and 2.96% in 2020 and 2021, respectively, in the aftermath of the COVID-19 economic shock.

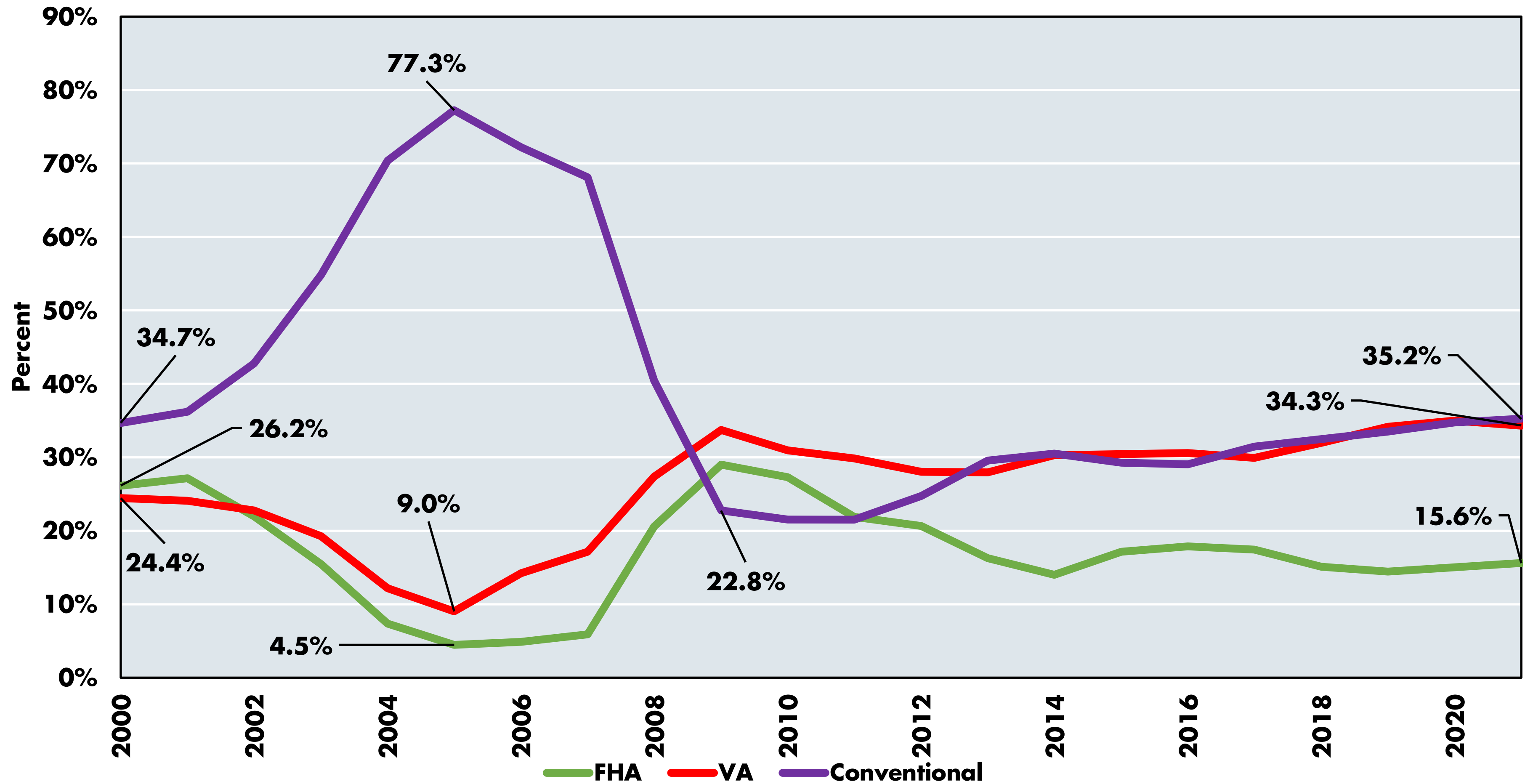
The supply of single-family homes, however, has not kept pace with rising demand. In 2003, building permits for single-family homes (a measure of new homes coming to market) peaked at 7,850. By 2009, permits had fallen to 2,888, a decline of 63.2%. (Graph 3). While permits rebounded off the 2009 low, the number of permits issued in 2021 was still 40.7% below the 2003 peak.

Graph 4 illuminates another point of evidence on the constrained supply of homes in Hampton Roads. In 2000, approximately 1 in 5 homes sold in the region were new construction. By 2010, the share of new homes had fallen to about 1 in 8 homes. In 2021, only 1 in 10 homes were new construction. As the inflow of new construction has fallen over the last two decades, existing single-family home sales have captured a greater share of the market. Buyers have increasingly found themselves competing for a shrinking pool of homes for sale.

6 Chamley, Christophe, Laurence J. Kotlikoff, and Herakles Polemarchakis. 2012. "Limited-Purpose Banking–Moving from 'Trust Me' to 'Show Me' Banking." *American Economic Review*, 102 (3): 113-19. DOI: 10.1257/aer.102.3.113.

GRAPH 2

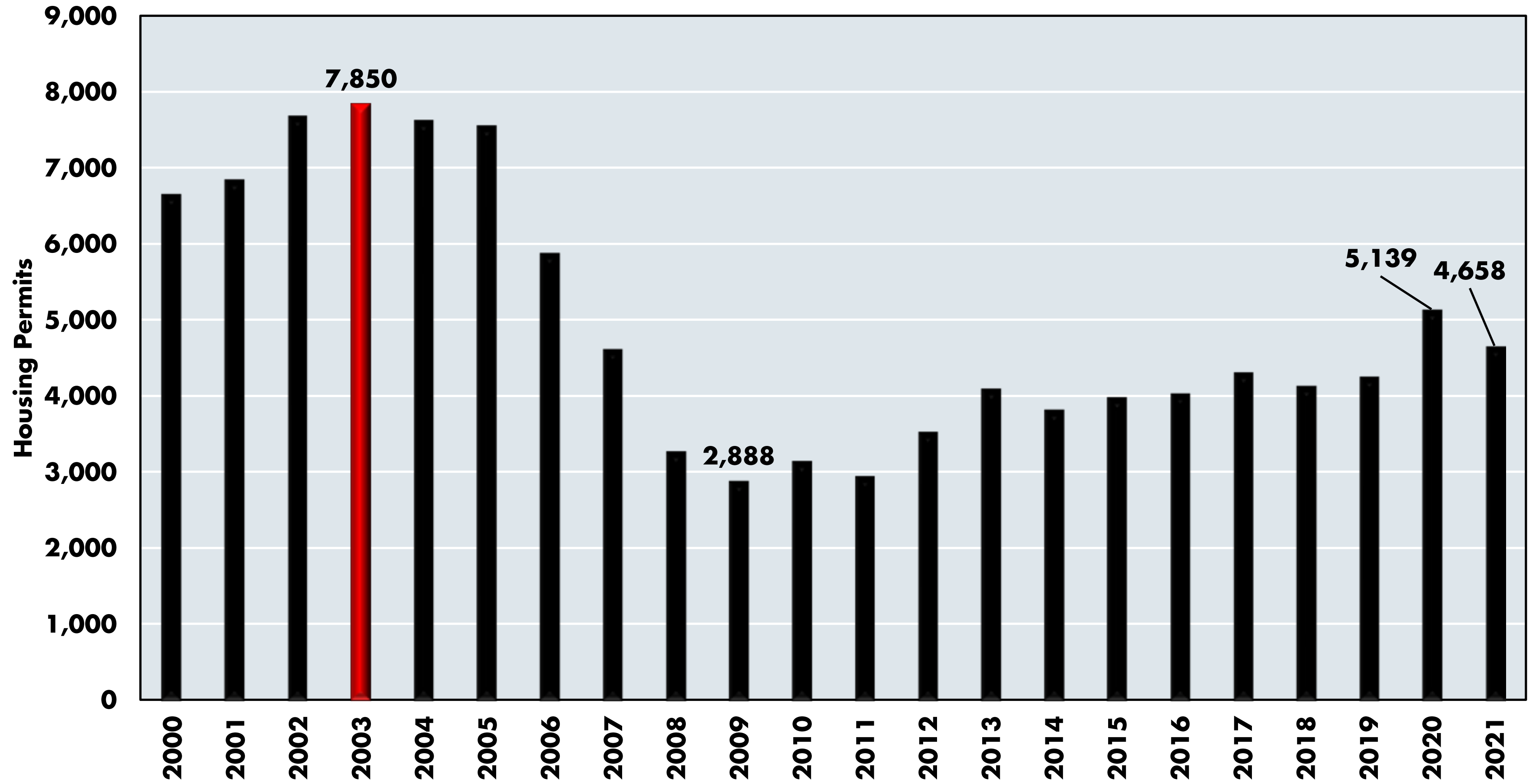
DISTRIBUTION OF EXISTING HOME SALES BY FINANCING TYPE
HAMPTON ROADS, 2000 - 2021



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

GRAPH 3

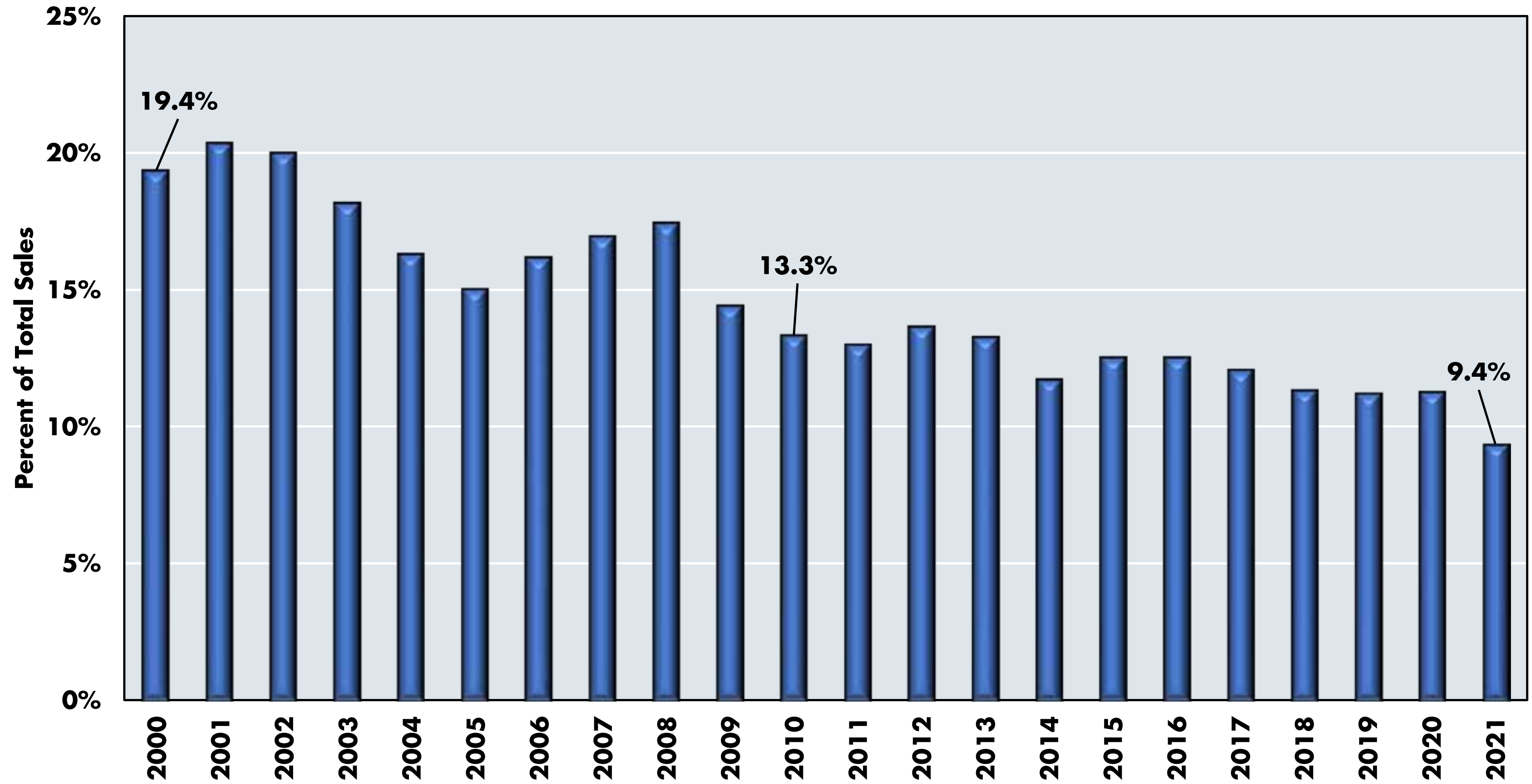
NUMBER OF BUILDING PERMITS FOR ONE-UNIT FAMILY HOMES HAMPTON ROADS: 2000 TO 2021



Sources: U.S. Census Bureau and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

GRAPH 4

NEW CONSTRUCTION SALES AS A PERCENT OF TOTAL SINGLE-FAMILY HOME SALES HAMPTON ROADS, 2000-2021



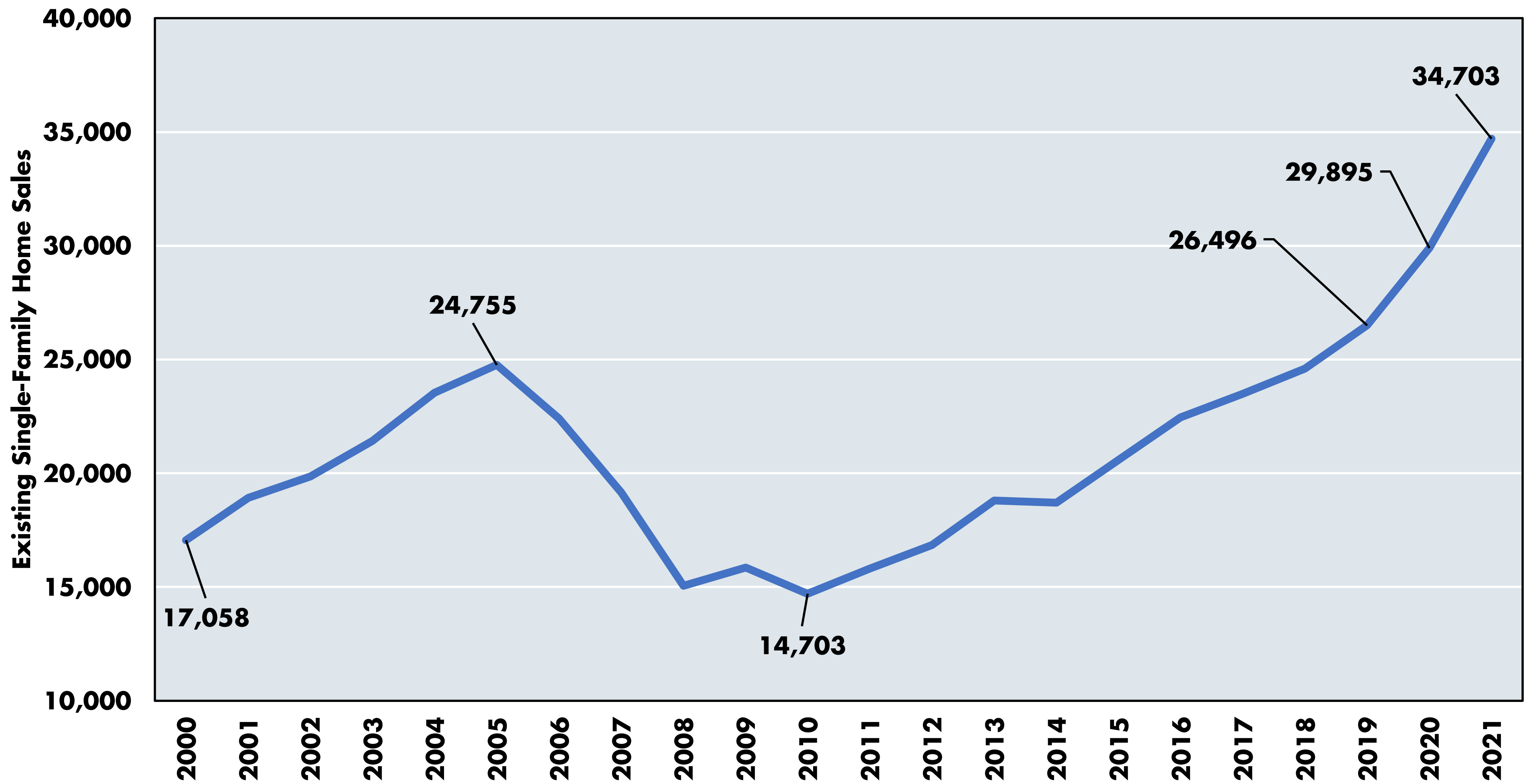
Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

The recent scramble of existing homes is visible in the sales data (Graph 5) and the number of days listings are on the market (Graph 6). Existing single-family home sales in 2019 (26,496) broke the previous record set in 2005 (24,755). This record was, in turn, broken in 2020 (29,895) as the COVID-19 pandemic and declines in home mortgage interest rates increased the demand for single-family homes. In 2021, existing home sales increased another 16.1% to 34,703, though expectations of another record are diminished for 2022 as mortgage rates increase and economic growth slows in the face of inflation and global commodity shocks.

Not surprisingly, as sales of existing homes have increased and the supply of new homes has remained below pre-Great Recession levels, the average days a home is on the market has continued to decline. In 2004, the average days on market was 27, increasing to 102 in the aftermath of the Great Recession. As the supply of foreclosed homes declined and interest rates continued to trend lower, average days on market fell to 53 in 2019. In 2020, average days on market fell to 41, falling again (and setting a record) to 24 days in 2021. A reasonable forward-looking expectation is that days on market will increase in 2022 and into 2023 as the demand for single-family housing slows in the face of rising interest rates.

GRAPH 5

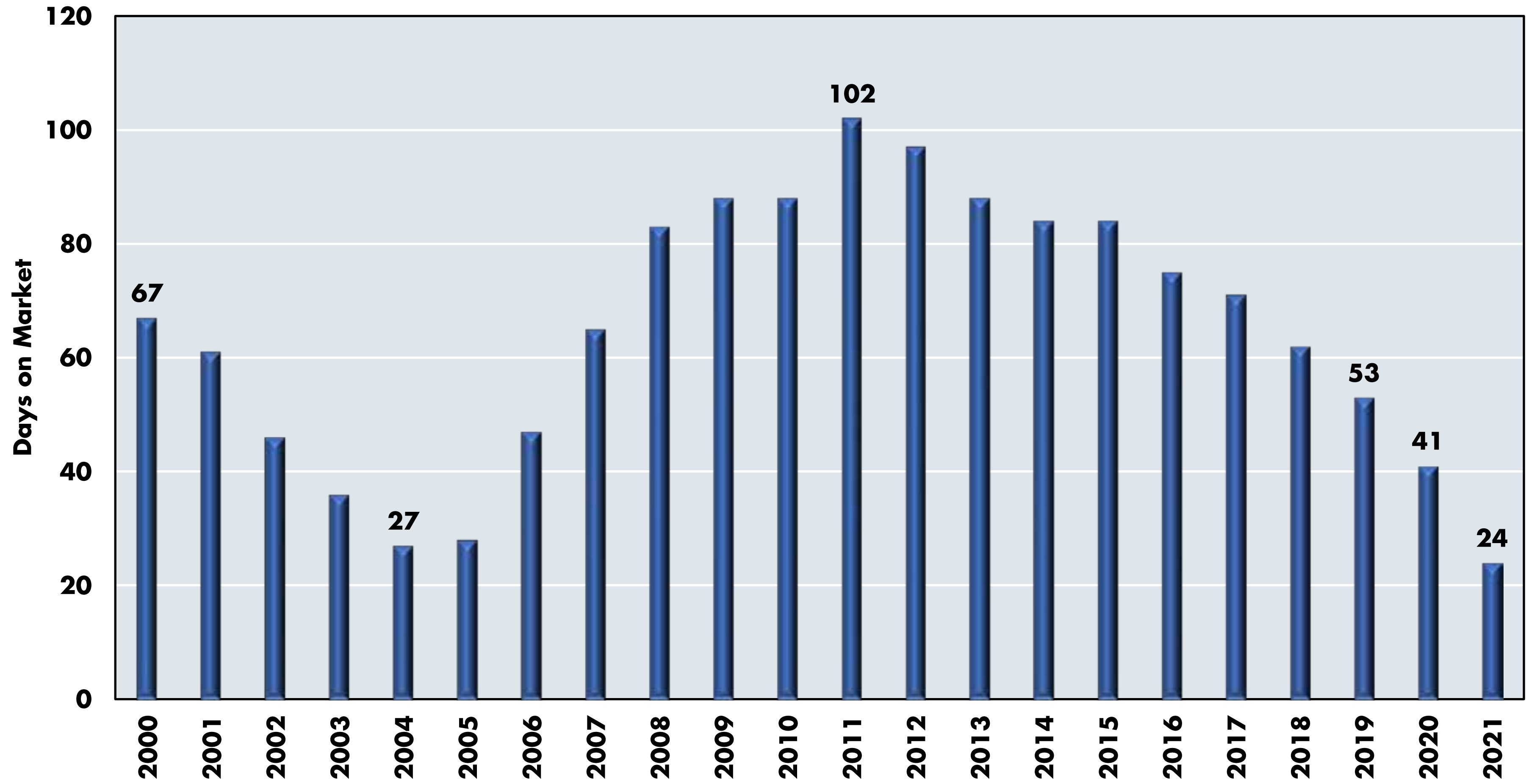
EXISTING SINGLE-FAMILY HOME SALES VOLUME
HAMPTON ROADS, 2000-2021



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

GRAPH 6

AVERAGE DAYS ON MARKET FOR EXISTING SINGLE-FAMILY HOMES
HAMPTON ROADS, 2000-2021



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Days on Market is calculated from the date listed to the Under Contract date for existing homes sold.

A Closer Look at Housing Affordability in Hampton Roads

To understand housing affordability in Hampton Roads, we need to examine housing costs relative to household income. **Recall that, according to HUD, a cost-burdened household spends 30% or more of their household income on housing, while for an extremely cost-burdened household, this ratio is 50% or greater.** HUD also classifies households in a region relative to an area's median income (AMI). Extremely low-income households have incomes below 30% of AMI, very low-income households have incomes between 31% and 50% of AMI, low-income households are between 51% and 80% of AMI and finally, middle-income households have incomes from 81% to 100% of AMI. Households whose incomes exceed a region's AMI are classified into the "above AMI" category. Table 2 illustrates Hampton Roads AMI in 2009 and 2019 as well as the income ranges for each group.[7]

TABLE 2

REAL AREA MEDIAN HOUSEHOLD INCOME (AMI) IN 2019 DOLLARS HAMPTON ROADS, 2005 - 2009 AND 2015 - 2019

Percentage of AMI	Household Category	2005 - 2009 Real Household Income Limits	2015 - 2019 Real Household Income Limits
100%	Median	$67,011	$66,759
80%	Low	$53,609	$53,407
50%	Very Low	$33,505	$33,380
30%	Extremely Low	$20,103	$20,028

Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2005-2009 and 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The values are deflated by the Consumer Price Index for all urban consumers from the U.S. Bureau of Labor Statistics.

7 We use data from the 2005 – 2009 and 2015 – 2019 5-year ACS from the U.S. Census to estimate real median household income for Hampton Roads in 2019 constant dollars. The use of ACS data allows us to estimate cost burdens for respondents in each ACS sample.

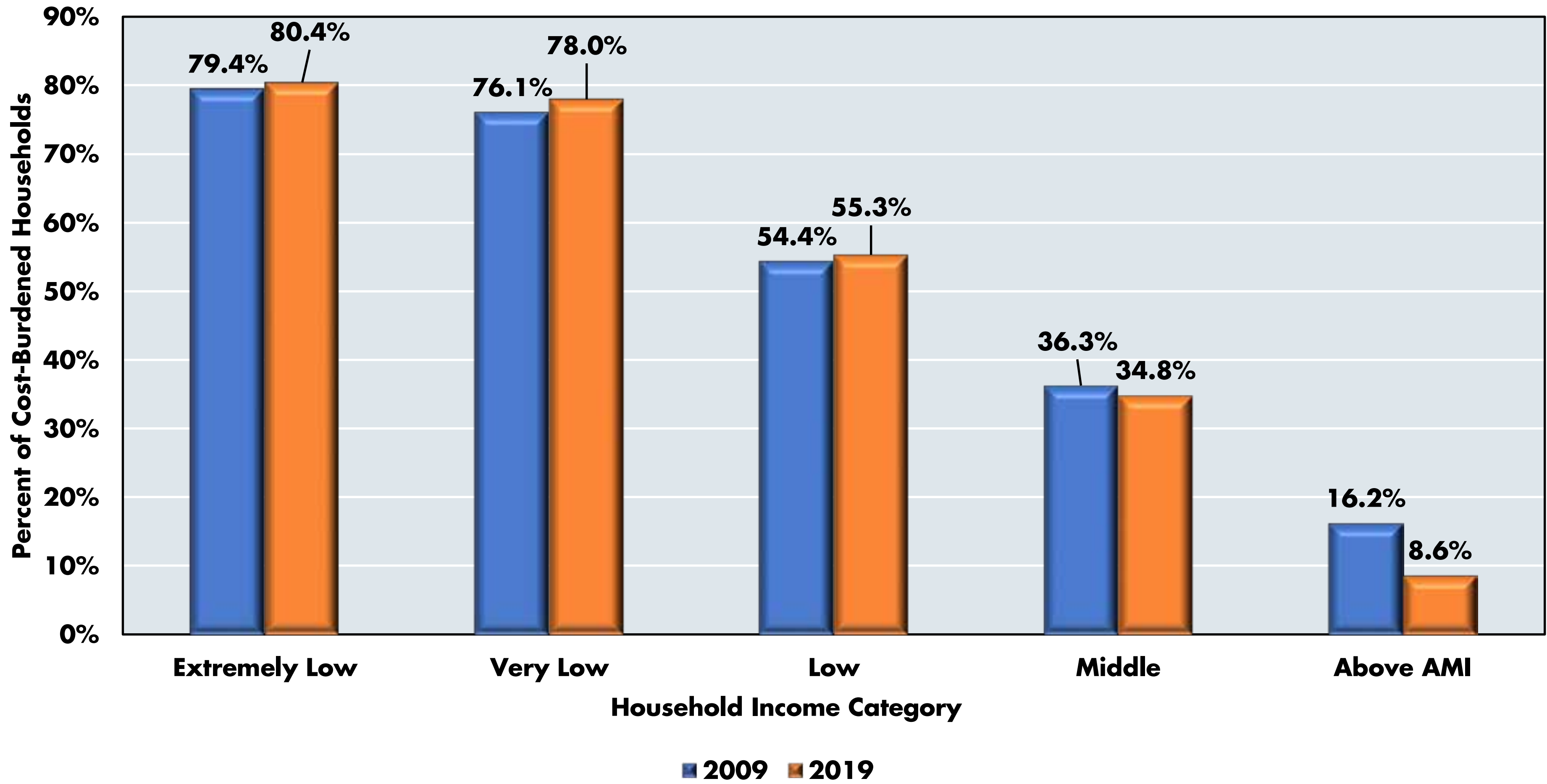
Graph 7 shows the percentage of households in Hampton Roads in each income quintile that were cost burdened using the U.S. Census five-year estimates ending in 2009 and 2019. Two observations immediately stand out. As one might expect, as income rises, the percentage of households that were cost burdened fell in both periods. However, for those in the highest income group, the percentage of those cost burdened fell from 16.2% in 2009 to 8.6% in 2019. Falling interest rates, even in the face of higher home prices, allowed many homeowners (who would typically fall in the higher income groups) to purchase or refinance at lower cost over the decade.

While higher income households saw cost burdens decrease over the last decade, households with fewer means saw their burdens increase. The proportion of cost burdened households increased from 79.4% in 2009 to 80.4% in 2019 for extremely low-income households (earning 30% or less of AMI). For those households in the very low-income category (earning between 30% and 50% of AMI), the proportion of cost-burdened households increased from 76.1% in 2009 to 78.0% in 2019. Housing supply and demand obviously played a factor, but demographic change may also be partly responsible for the increase in cost-burdened households.

Graph 8 illustrates this demographic change between the U.S. Census five-year estimates in 2009 and 2019. These changes could come from households moving into the region or movement up (or down) the income ladder for current residents. The region saw an increase of 13,137 households with very low or extremely low income, which more than offset the 10,574 increase in households above the AMI. One possible explanation is that residents with the means to do so have left in search of improved economic opportunities. Census population data points to this phenomenon as Hampton Roads has seen a decline in those in their prime working years over the last decade. As these higher-educated, higher-income residents leave, some have been replaced with new residents of lower means. A larger number of households in the poorest income categories increases the competition for already scarce affordable housing, limiting the ability of these households to save for an emergency, cope with an unexpected job or family shock, or invest in their education.

GRAPH 7

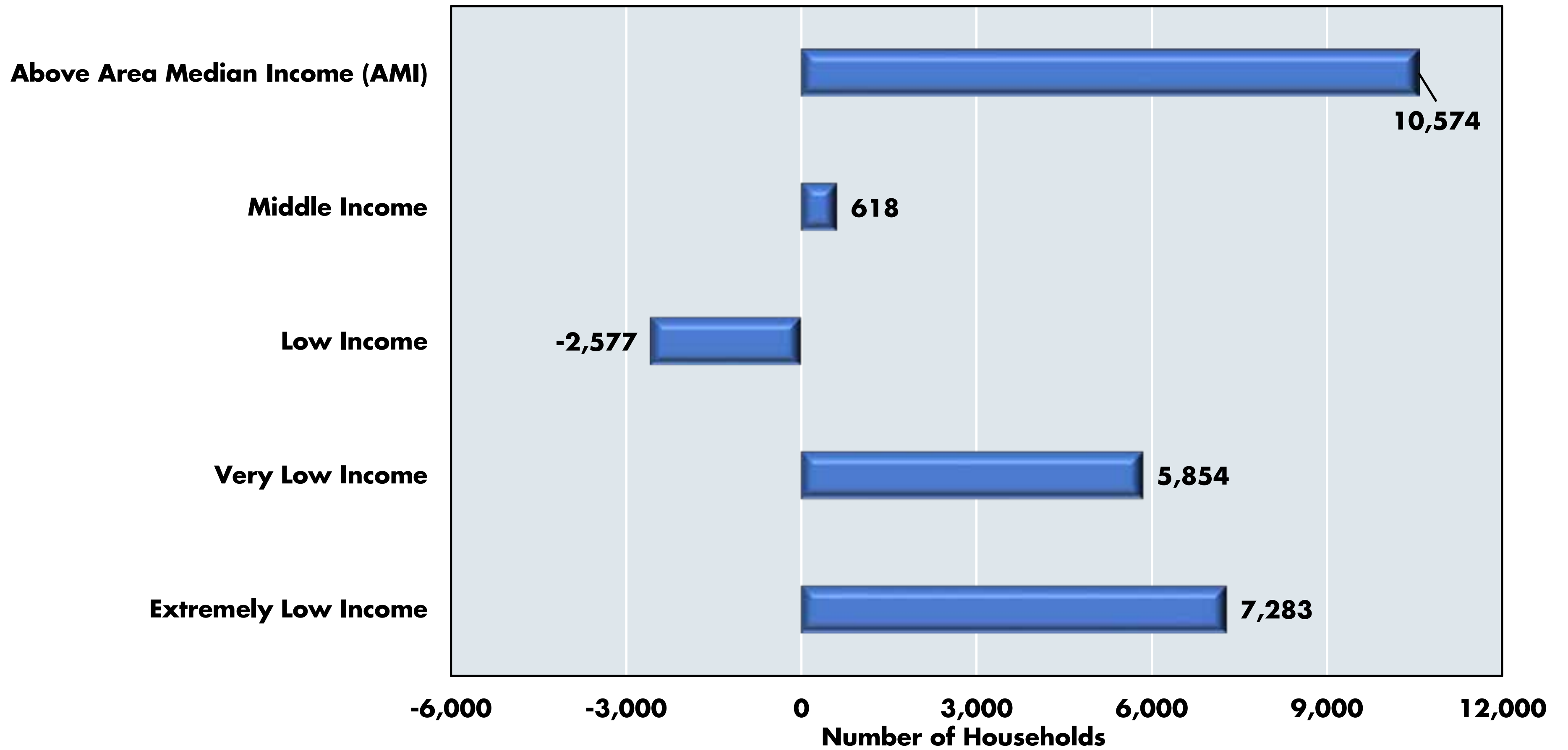
PERCENTAGE OF COST-BURDENED HOUSEHOLDS BY INCOME GROUP
HAMPTON ROADS, 2009 AND 2019



Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2005-2009 and 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

GRAPH 8

CHANGE IN NUMBER OF HOUSEHOLDS BASED ON DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT INCOME THRESHOLDS HAMPTON ROADS, 2009-2019



Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2005-2009 and 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

The Characteristics of Cost-Burdened Households

Hampton Roads, like many regions, has a stark demographic disparity between households considered cost burdened (those spending more than 30% of household income on housing) and not cost burdened (those spending less than 30% of household income on housing). According to Table 3, the median income for cost-burdened households in 2019 was $30,350, only 15% higher than the 2019 Federal Poverty Guideline for a four-person household. In contrast, median income for not cost-burdened households was $88,000 in 2019, nearly three times higher than their cost-burdened peers. In addition to income level, the ownership status of one's dwelling plays an important role in determining into which group a household fell. While renters and owners were split nearly evenly in the cost-burdened group, 73% of non-burdened households owned their homes.

Graph 9 further illustrates the difference between renters and owners. Between the five-year periods ending in 2009 and 2019, the cost burden for renting households slightly rose, while the burden for homeowners with and without mortgages declined. While the overall cost burden for the region fell, this change was primarily driven by homeowners. Specifically, the largest decline was seen with mortgage-owning homeowners, which was likely driven by refinancing and historically low interest rates.

Is this trend the same across all cities in the region? Table 4 shows this renter-owner burden breakdown for each city and county in Hampton Roads. The total cost burden was highest in many of the more urban cities within the region (Norfolk, Newport News, Portsmouth) while the renter cost burden was indiscriminate about urban-rural status, with areas like Williamsburg and Franklin having similar shares of cost-burdened renter populations.

TABLE 3

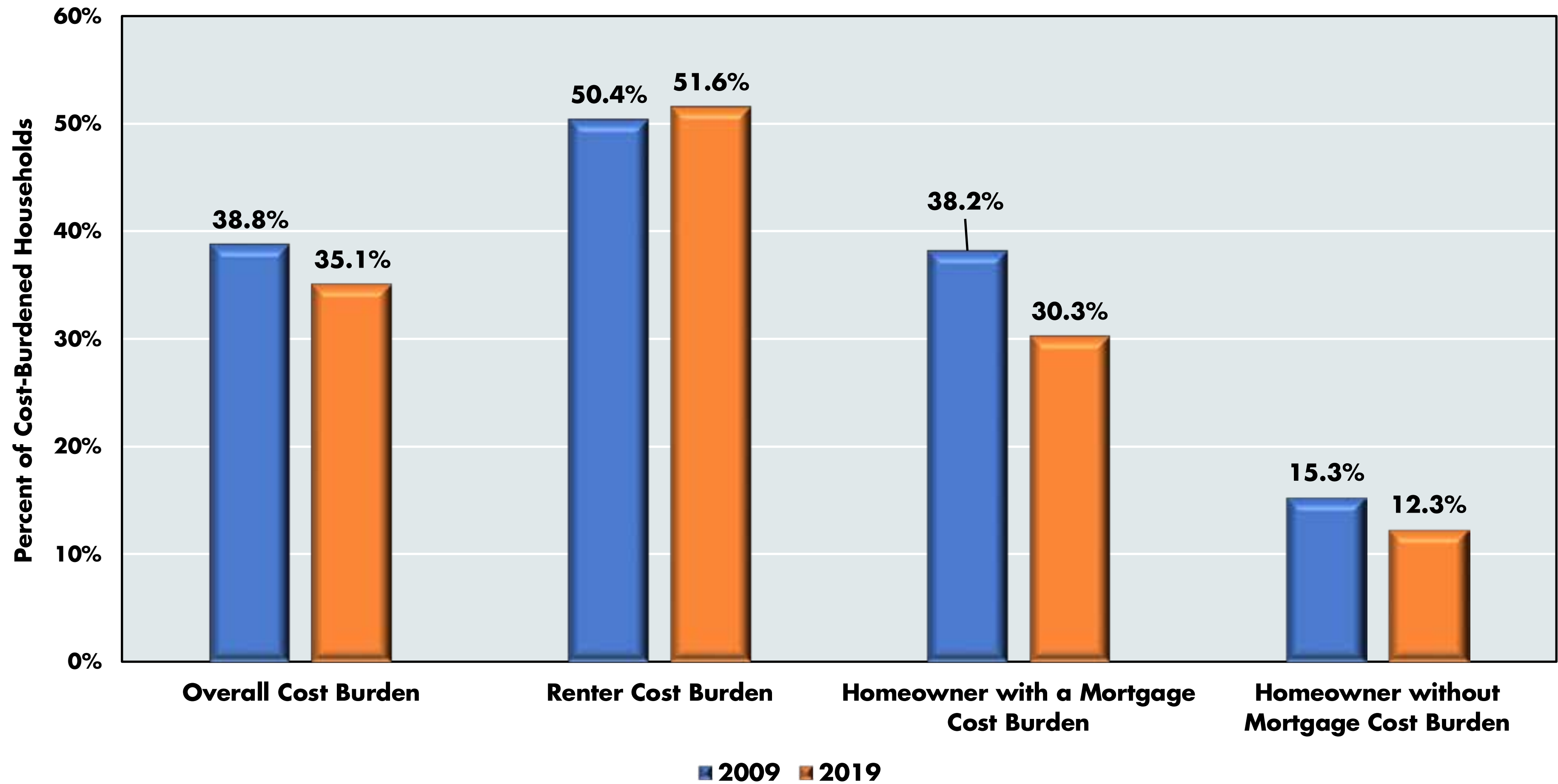
CHARACTERISTICS OF COST-BURDENED HOUSEHOLDS, HAMPTON ROADS, 2019

		Cost-Burdened Households	Not Cost-Burdened Households
Median Income		$30,350	$88,000
Median Percentage of Income Spent on Housing		45%	17%
Housing Type	renter	54%	27%
	owner	46%	73%
Median Age of Householder		48	52
Race of Householder	White	51%	66%
	Black	38%	25%
	Asian	2%	3%
	Other Races	9%	7%
Ethnicity	Non-Hispanic	94%	96%
	Hispanic	6%	4%
Gender of Householder	Male	40%	53%
	Female	60%	47%
Median Number of People in Household		2	2

Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

GRAPH 9

PERCENT OF COST-BURDENED HOUSEHOLDS BY HOUSING TYPE HAMPTON ROADS, 2009 AND 2019



Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2005-2009 and 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

TABLE 4

COST-BURDENED HOUSEHOLDS BY LOCALITY
HAMPTON ROADS, 2015 - 2019

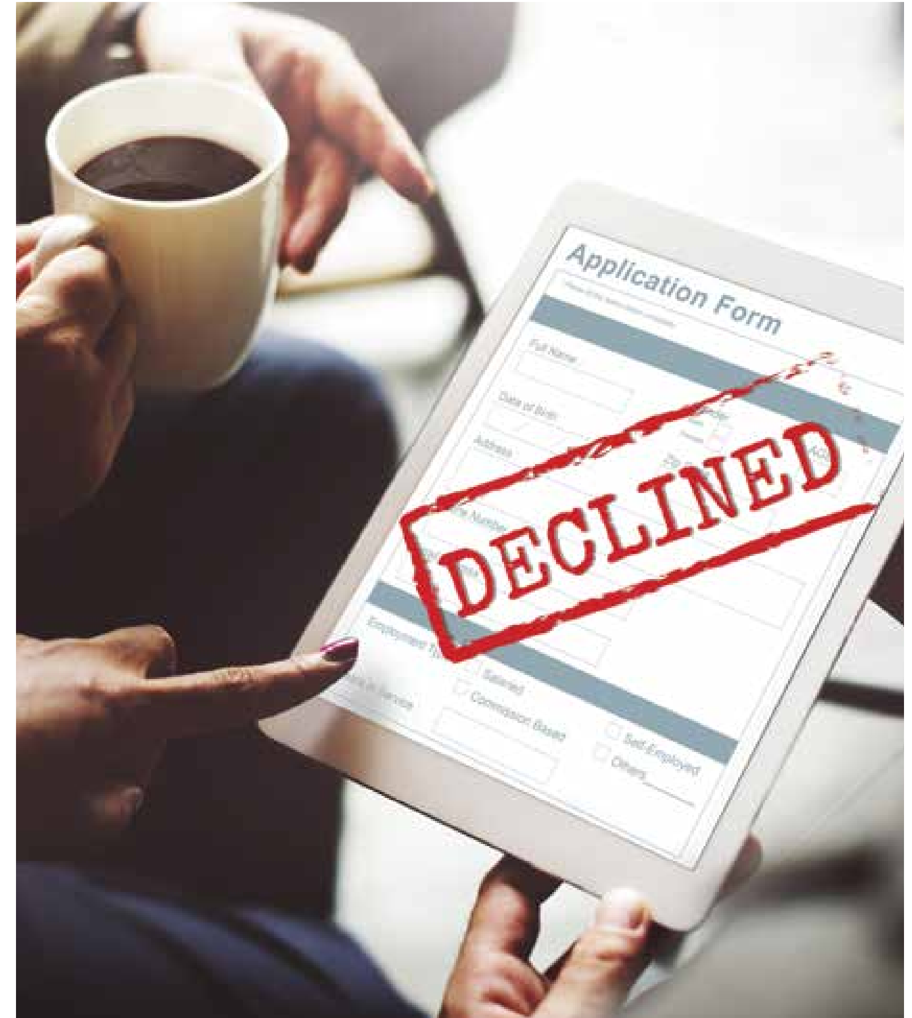
Locality	Total Cost Burden	Owner Cost Burden	Renter Cost Burden
Camden County	30.2	26.8	51.1
Chesapeake city	32.6	24.3	54.4
Currituck County	27.0	22.8	50.0
Franklin city	37.5	22.4	54.2
Gates County	28.3	25.5	41.7
Gloucester County	24.8	19.2	46.9
Hampton city	37.9	27.0	52.2
Isle of Wight County	27.1	21.9	46.5
James City County	26.5	20.6	47.3
Mathews County	26.7	22.2	52.7
Newport News city	40.0	25.7	54.1
Norfolk city	42.1	29.3	52.3
Poquoson city	25.5	22.3	42.3
Portsmouth city	40.5	29.0	55.5
Southampton County	26.1	20.8	46.2
Suffolk city	33.9	25.7	53.0
Virginia Beach city	34.7	26.9	48.6
Williamsburg city	34.9	15.3	55.3
York County	27.7	19.7	48.7
Hampton Roads	35.1	25.3	51.6

Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

How Does Hampton Roads Compare to Other Metropolitan Areas?

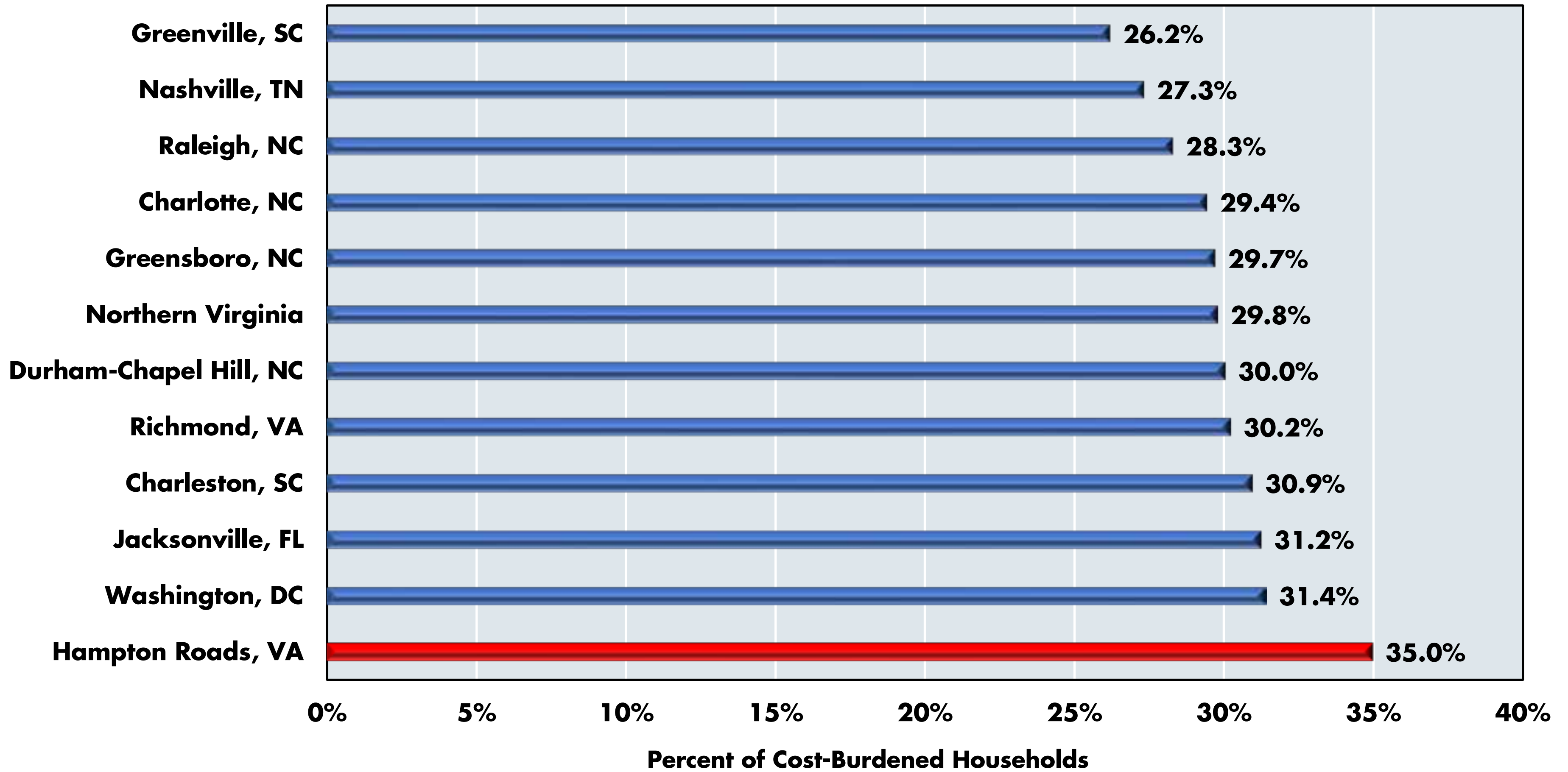
Whether or not Hampton Roads is affordable relative to other metropolitan statistical areas (MSAs) is more than an academic question. Public pronouncements often tout the quality of life and affordability of the region, especially relative to higher-cost areas like Northern Virginia. If we are to succeed in changing the narrative of the region, we need to know where we stand, regardless of whether the news is good or bad.

Graphs 10 and 11 compare the percentage of cost-burdened and severely cost-burdened households in Hampton Roads with selected metro areas in Virginia and neighboring states. In the five-year period ending in 2019, Hampton Roads had the highest percentage of households that were classified as cost burdened and severely cost burdened, more than any other selected metropolitan area. While the cost of housing may be higher in Northern Virginia, for example, incomes are higher, and thus housing cost as a percentage of income is lower for many households. Indeed, the number of cost-burdened households was 5 percentage points lower in Richmond, our closest geographic competitor along I-64.



GRAPH 10

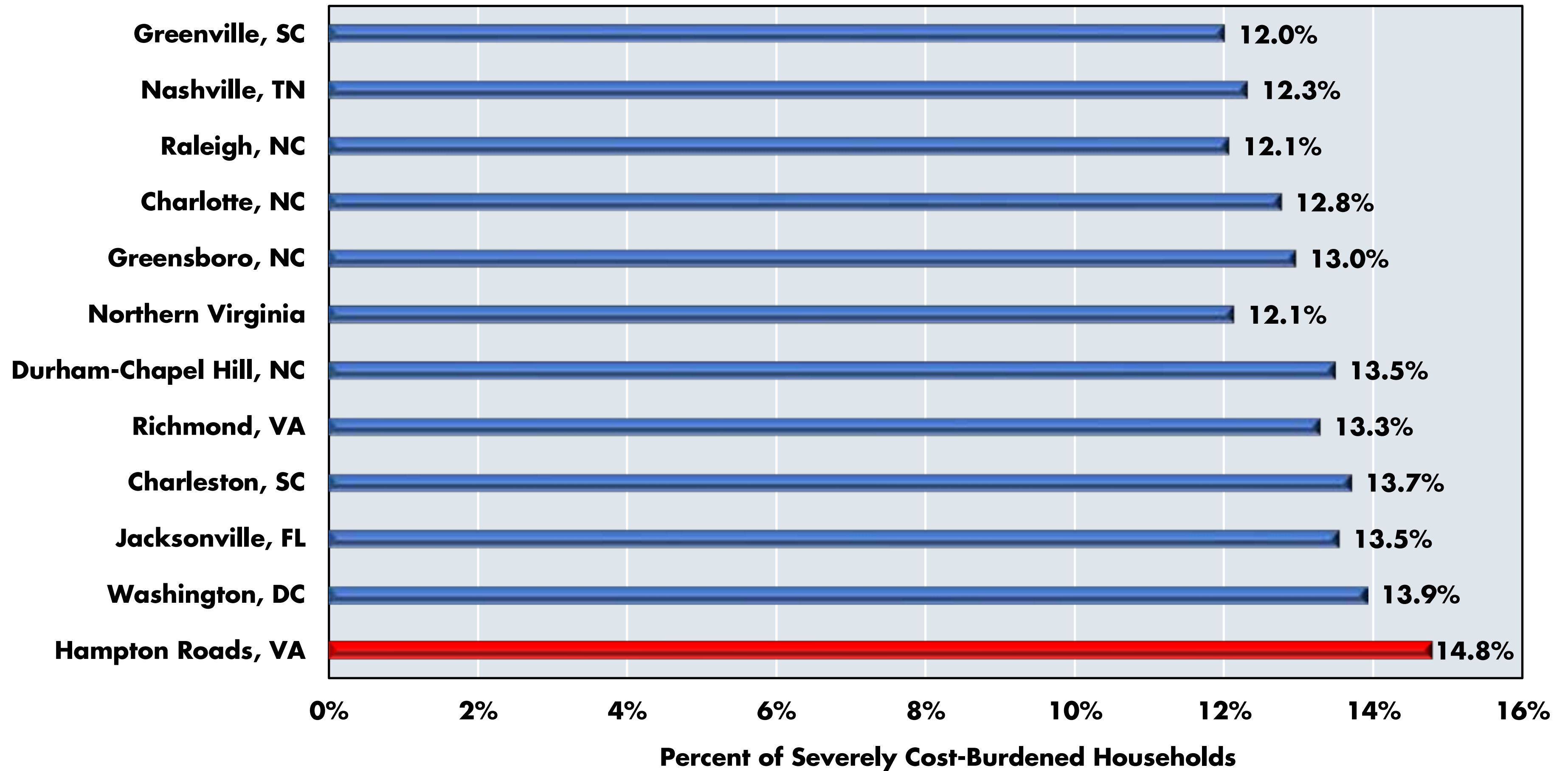
PERCENT OF COST-BURDENED HOUSEHOLDS BY SELECTED REGION
2015 - 2019



Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Cost-burdened households spend 30% or more of their income on housing.

GRAPH 11

SEVERELY COST-BURDENED HOUSEHOLDS BY SELECTED REGION, 2015 - 2019



Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Severely cost-burdened households spend 50% or more of their income on housing.

Renters Are Most Cost Burdened in Hampton Roads

While the American dream may include owning a single-family residence, many residents of Hampton Roads live in multi-family housing. Renters are disadvantaged by the tax code as they are unable to deduct a portion of rent, unlike many homeowners who might be able to claim a deduction for mortgage interest. Homeowners were also able to refinance into lower-interest mortgages over the past decade, lowering their housing payments, a financial alternative not available to those who rent. Renting may also be the only alternative for households with lower incomes and insufficient savings.

Table 5 provides estimates of the proportion of households that are cost burdened (spending between 30% and 50% of household income on housing) and severely cost burdened (spending more than 50% of household income on housing). While Hampton Roads was only fourth-highest in the share of selected MSA households that were severely cost burdened, the overall cost burden share in the region was more than a percentage point above Washington, D.C., the MSA with the second-highest share. Some of our closest neighbors, including Raleigh, Durham, and Charlotte, had a cost-burdened share up to 5 percentage points lower than our region.

TABLE 5

RENTERS COST BURDENED BY SELECTED METRO AREAS, 2015 - 2019

	Cost Burdened (Between 30 - 50%)	Severely Cost Burdened (Greater than 50%)	Overall Cost Burdened Households (Greater than 30%)
Hampton Roads, VA	**27.3**	**23.5**	**50.8**
Washington, DC	25.0	24.3	49.3
Richmond, VA	24.6	24.1	48.7
Greensboro, NC	26.0	22.6	48.6
Nashville, TN	24.6	23.4	48.0
Jacksonville, FL	26.2	21.5	47.7
Charleston, SC	25.2	22.4	47.7
Greenville, SC	22.5	24.6	47.1
Charlotte, NC	25.2	21.3	46.5
Durham-Chapel Hill, NC	23.7	22.0	45.6
Raleigh, NC	24.6	20.8	45.4
Northern Virginia	24.8	20.6	45.3

Sources: U.S. Census Bureau, American Community Survey, 5-year data for 2015-2019, and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

Does What Makes Hampton Roads Unique Make It Less Affordable?

Many places in the U.S. have characteristics that make them unique and subsequently drive their local economy and housing market. Nashville has its music scene, Las Vegas has its vices, and Detroit is the Motor City, to name a few. For Hampton Roads, it is access to the water, which can be a blessing and a curse, along with the region's ties to federal spending, most notably the Navy. Let us first look at how the attractiveness of the region may reduce housing affordability.

For those that love the temperate Mid-Atlantic climate and warm sandy beaches, Hampton Roads is a desirable place to take a vacation or live. It is what economists call a high-amenity area. Amenities are difficult to directly measure, but this could explain some of the lack of housing affordability in Hampton Roads.

The economic idea is simple and goes back to pioneering economist Alfred Marshall in 1890.[8] If a region, such as Hampton Roads, has better amenities than other areas, then to keep everyone from moving in, housing costs must increase, wages decrease, or some combination of the two. Another way to think about this is that some Hampton Roads residents are willing to have a higher housing cost burden to live in the region because of the amenities they enjoy. Selling a region on "quality of life" implicitly argues that too many new people may "ruin" the region.

Another way amenities could influence housing affordability is through tourism and the short-term rental market. Short-term rental companies like Airbnb are continuing to expand their reach in high-amenity locations throughout the region. Short-term rentals could impact affordability in two ways, both of which are challenging to measure. First, the popularity of short-term rentals could lead investors to purchase properties in desirable locations, such as near Virginia Beach's oceanfront or downtown Norfolk. Housing units transitioned to short-term rentals decrease the supply of available housing and subsequently increase housing expenses for residents. This relationship is corroborated by several studies in peer-reviewed academic literature.[9] Current residents could also use Airbnb or other short-term rental platforms on a temporary basis to earn additional income to offset a high housing cost burden.

The water in Hampton Roads can also encroach in ways that harm the housing market. Using this line of reasoning, geographic constraints such as water, swamp, or marsh can make housing construction difficult and expensive. In economics, this concept is quantified in the housing supply elasticity, which measures how responsive the quantity of housing units is to changes in the price of housing. For example, an elasticity greater than 1.00 means that for a 1% change in price, the increase in housing supply will be greater than 1%. Conversely, an elasticity less than 1.00 means that for a 1% change in price, the increase in housing supply will be less than 1%.

Table 6 shows estimates of the housing supply elasticity for selected metro areas from a widely cited academic study by Albert Saiz. Based on its physical features, Hampton Roads has a supply elasticity like Miami and San Francisco. Interpreting the region's elasticity literally means that increasing the housing price by 1 percent only yields a 0.78 percent increase in the number of housing units. Intuitively, if more households want to move to the region, we are more likely to see housing prices increase relative to expansion in housing units through new construction or renovations. In contrast, many other East Coast cities, such as Raleigh, Charleston, or even Washington, D.C., tend to see an increase in the number of housing units as the housing prices rise. Simply put, more housing units could lead to more affordable housing.

8 Marshall, Alfred. 1890. *Principles of Economics.* London: Macmillan.

9 For example, Horn, Keren, and Mark Merante. "Is home sharing driving up rents? Evidence from Airbnb in Boston." *Journal of Housing Economics* 38 (2017): 14-24. Lee, Dayne. "How Airbnb short-term rentals exacerbate Los Angeles's affordable housing crisis: Analysis and policy recommendations." *Harvard Law & Policy Review* 10 (2016): 229.

TABLE 6	
HOUSING SUPPLY RESPONSIVENESS BY MSA, 2010	
Region	**Housing Supply Elasticity**
Hampton Roads, VA	0.78
Washington, DC	1.28
Nashville, TN	2.03
Jacksonville, FL	1.06
Greenville, SC	2.70
Greensboro, NC	2.39
Raleigh, NC	1.50
Charleston, SC	1.38
Miami, FL	0.57
San Francisco, CA	0.59
Wichita, KS	5.16

Source: Housing supply elasticity estimates from Saiz, Albert. "The geographic determinants of housing supply," *The Quarterly Journal of Economics* 125.3 (2010): 1253-1296.

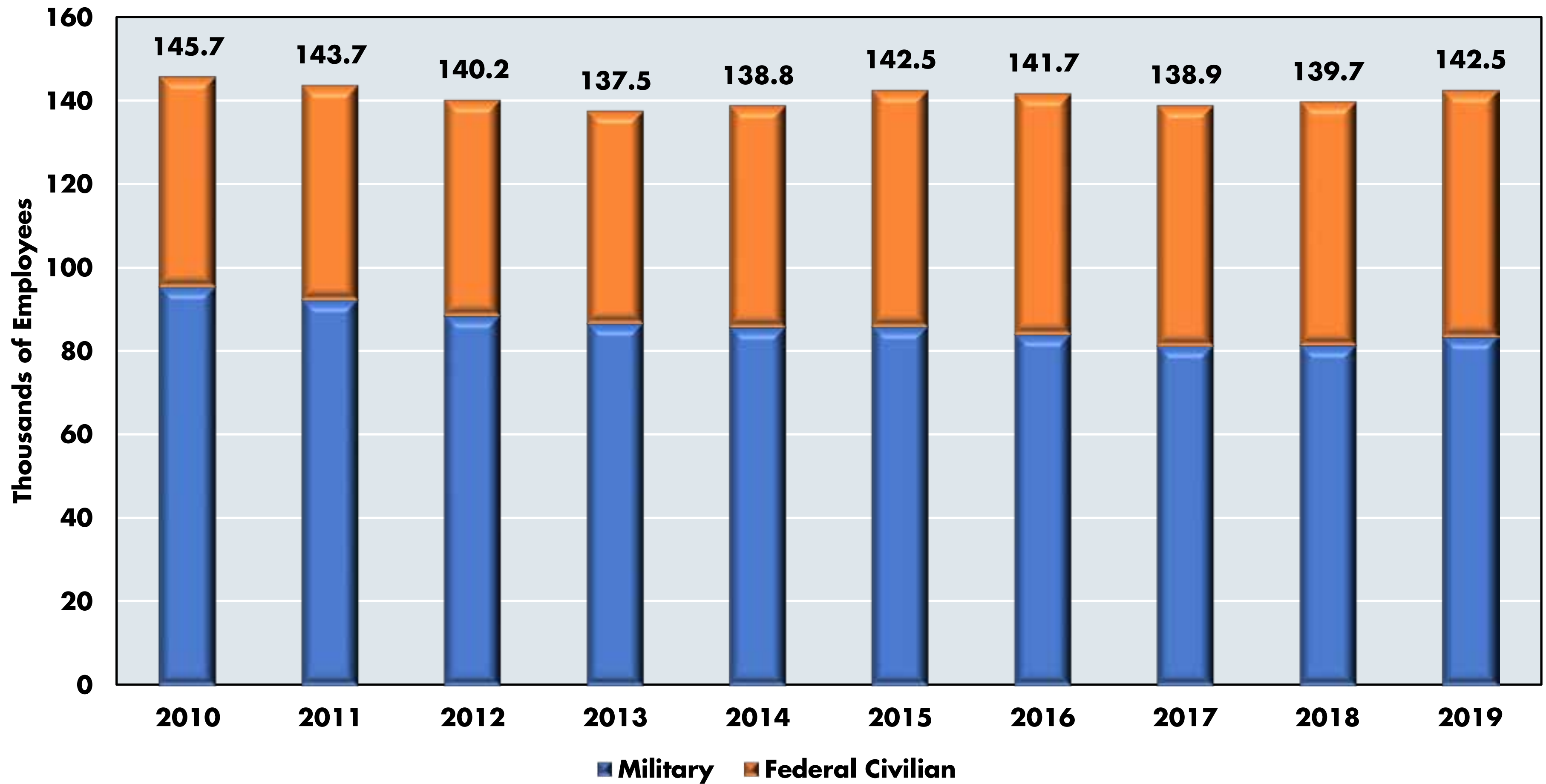
The Federal Government: Is it Contributing to the Problem?

It is no secret to those in Hampton Roads that the federal government, specifically the Department of Defense, is a crucial player in the local economy. In many obvious and some subtle ways, the regional housing market and housing affordability are based on spending and personnel decisions made in Washington, D.C.

Graph 12 shows how large and steady federal employment has been in Hampton Roads. The region has averaged over 140,000 military and federal civilian workers over the last decade. Even though the number of military personnel has declined, the federal civilian workforce has grown to bridge the gap. Furthermore, the federal workforce in Hampton Roads enjoys competitive wages and benefits compared to the private sector. Table 7 shows how the average military and federal civilian workers' compensation stacks up with the average compensation for workers in the private sector. Federal civilian employees earned upwards of $118,000 in 2019, followed by military personnel at $100,000, while private nonfarm workers earned on average $48,000. The sheer size, job stability, and purchasing power of federal workers puts pressure on the housing market, especially for low-wage civilian workers.

GRAPH 12

MILITARY AND FEDERAL CIVILIAN EMPLOYMENT
HAMPTON ROADS, 2010 TO 2019



Source: Bureau of Economic Analysis.

TABLE 7 AVERAGE EARNINGS BY OCCUPATION HAMPTON ROADS, 2001, 2018, 2019						
	Average Earnings in 2001	Average Earnings in 2018	Average Earnings in 2019	Cumulative Average Growth Rate 2001 to 2010	Cumulative Average Growth Rate 2010 to 2019	Percent Change 2018 to 2019
Military	$47,043	$97,063	$100,764	7.21%	1.51%	3.81%
Federal Civilian Govt. Employees	$62,931	$115,544	$118,211	4.53%	2.61%	2.31%
Private Nonfarm	$33,237	$47,059	$48,161	2.68%	1.48%	2.34%

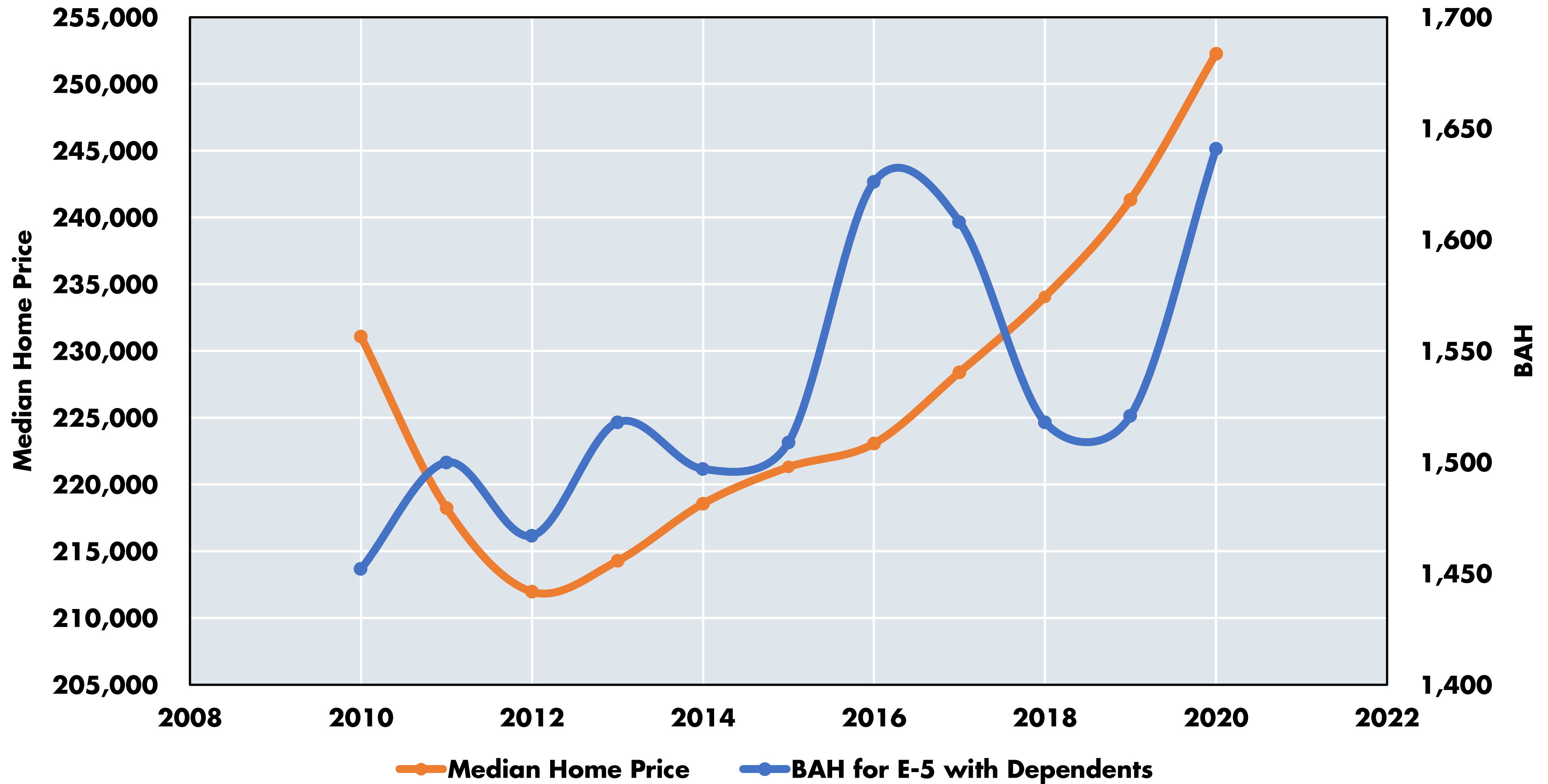
Source: Bureau of Economic Analysis. Data as of November 17, 2020.

Military personnel typically have access to unique financing options, such as Veterans Administration (VA) loans, and part of their overall compensation includes an allowance (in many cases) to offset housing costs. VA loans may require a small or no down payment and may increase upward price pressure in the region. Furthermore, local military installations have some housing available to service members, but there are not enough units (or the quality level demanded by some service members) to cover all military personnel and their families. This has led the Department of Defense to find ways to encourage military personnel to find housing in the private sector. The chief way they accomplish this is by including a Basic Allowance for Housing (BAH) in their compensation. The BAH is based on rank, years of service, and location (military housing area), and is designed to cover approximately 95% of housing rental and utilities.

The BAH serves as a way for the Department of Defense to adjust military compensation based on the local housing market. The stated goal of the program is to mimic local housing markets to ensure adequate housing near each duty station. Graph 13 provides some evidence that this is true by comparing the evolution of the median home price for Hampton Roads and the BAH for an E-5, a Petty Officer Second Class, one of the largest ranks by personnel in the Navy. Despite matching the trends in the local housing market, real estate and leasing professionals point to the BAH as a reference point for setting rents. For example, due to the number of military personnel that cycle through the region every few years, it is common for landlords to base their rent on the BAH for a particular rank.

GRAPH 13

MEDIAN HOUSING PRICES AND THE BASIC ALLOWANCE FOR HOUSING HAMPTON ROADS, 2010 TO 2020



Sources: Zillow, the Department of Defense and the Dragas Center for Economic Analysis and Policy, Old Dominion University. BAH reflects the Norfolk-Portsmouth military housing area.

Final Thoughts

Increasing housing affordability is a thorny problem. Many players are involved in the housing market: developers, builders, landlords, current residents, future residents, regulators, and policymakers, among others. With the web of entrenched interests, it will take more than a single program, policy, or political party to change our fortunes. An important first step, though, is to admit we have a problem. Because there is one practically universal truth, we can either pay the consequence now, or pay it later, but we will face the music at some point.

While housing affordability includes both the cost of housing and household income, meaningful progress likely needs to come from increasing the supply of affordable housing units. Local solutions will require both some degree of creativity and resolve.

Create efficiencies and rethinking zoning. Cities and counties will need to look for ways to reduce "red tape" for new construction, particularly for affordable units, as well as reducing exclusionary zoning – land use and building code requirements that keep affordable housing units out of some neighborhoods. In contrast, so-called inclusionary zoning policies show promise.[10] Inclusionary zoning is a set of tools to ensure private developments set aside some affordable units (either at the same site or a separate site) at below-market rates or pay into a fund to develop those units directly.

Increasing density without concentrating poverty. While the "American Dream" is to own a single-family, detached residence, we must also recognize that we cannot (nor do we want to) create an urban sprawl like Houston or Los Angeles. Water limits our ability to spread out and so one choice is to build up, not out. In this respect, urban movements like "the missing middle"[11] provide a blueprint for how diverse housing options, such as duplexes, fourplexes, and cottage courts can add density and affordability. With the baby boomer generation aging out of single-family housing, the demand for condominiums and apartment housing is likely to only increase in the coming decade. We must take care not to build denser housing that creates concentrations of poverty. One only needs to look at how these types of public housing projects have failed their residents and communities in the past.

Explore New Financing Methods. Finally, developers are feeling the squeeze from pandemic-related supply chain issues, rising construction costs, and climbing interest rates. To ensure more affordable units enter the pipeline, it will be important to find creative ways to bridge the financing gap. Public schools are sometimes built using the "sale and leaseback" financing model, and it may be useful to explore this and other models of financing that create value for residents and developers over time. While expanding the Section 8 housing voucher program may reduce the cost burdens faced by some households, the waiting lists for affordable housing are long and growing. Building new affordable housing is necessary; the question is whether we have the political will to increase density and change zoning to make this happen. While no solution is easy, we do know this: Without action, the rent will remain too damn high for many in Hampton Roads.

10 Burnett, Komarek, Stacy, Noble, & Hodge. *Inclusionary Zoning*. Urban Institute. July 2021.
11 Parolek, Daniel G. *Missing Middle Housing: Thinking Big and Building Small to Respond to Today's Housing Crisis*. Island Press, 2020.

FOR
RENT