The Pillars of the Hampton Roads Economy Remain Strong
The gloves of the Hampton Roads economy remain strong

“The good news is that every morning we have the choice; not to be controlled by circumstances nor our past but by purposely designing our day, hence our lives better.”

Bernard Kelvin Clive, Author and Speaker

The Virginia Beach – Norfolk – Newport News (“Hampton Roads”) Metropolitan Statistical Area (MSA) is a region rich with assets – a talented and diverse labor force, a distinctive role in the national security of the nation, a deep-water port that continues to set records, and beaches and amenities that attract visitors from near and far. The region’s economic performance is closely aligned with these assets. Defense spending, the Port of Virginia, and the hospitality and tourism industry are often referred to as the “Three Pillars” of the Hampton Roads economy.

The economic health of Hampton Roads is important not only to the residents of the region but also to the citizens of the Commonwealth. The region accounts for about 1 in 5 citizens in Virginia and roughly the same proportion of economic activity in the state. An economically vibrant and innovative Hampton Roads would lift potential Gross Domestic Product (GDP) for Virginia. Likewise, if the region’s economic performance is relatively anemic, it can weigh on the state’s economic performance.

Improving economic performance in Hampton Roads, we argue, does not mean abandoning the region’s economic pillars. The region needs to invest in proven pillars of economic growth and complement these pillars with policies that are friendly to innovation, trade, and talent. As the economy of Hampton Roads evolves over the coming decade, we are likely to see the emergence of new pillars that include Health Care and Health Sciences, Renewable Energy, and Unmanned Systems. This diversification will not only bolster economic growth, it will make the region more resilient in the face of economic and political changes in future.

It may be an understatement to say that it was a good year for the pillars of the Hampton Roads economy. Defense spending continued to flow into the region and set a new record. The Port of Virginia continued to have a significant impact on the economy of Hampton Roads and Virginia and moved record amounts of cargo in 2022. The travel and tourism industry outperformed other regions in Virginia and many regions across the United States. Housing prices were resilient in the face of increasing interest rates and inflation. For these sectors of the Hampton Roads economy, there was an abundance of good news.

In this chapter, we examine the pillars of the Hampton Roads economy. In the next section, we discuss the level of defense spending in the region and how it reverberates through the economy. We then turn to the performance of the Port of Virginia and how it continued to set records for cargo traffic. The succeeding section examines the hotel industry and how it has fared when compared to state and national markets. We then wrap up with an examination of single-family residential housing in Hampton Roads and final thoughts about the prospects for growth in 2023 and beyond.
Good News for Defense Spending: Is the Sky the Limit?

Department of Defense (DoD) spending is one of the pillars of the Hampton Roads economy, but one could argue it is the first among equals. As illustrated in Graph 1, direct DoD spending in Hampton Roads likely exceeded $25 billion in 2022 and is on track to top $27 billion in 2023. When we account for the ripple effects of direct DoD spending on the regional economy, we estimate that about 4 out of every 10 dollars of economic activity is the result of DoD spending in the region.

In the short term, we expect that DoD spending will continue to increase. In FY 2022, DoD's base budget was $756.6 billion, increasing to $797.7 billion in FY 2023. We note that President Biden proposed a base DoD budget of approximately $773 billion, and this was viewed as too low by authorizers and appropriators in Congress. With supplemental appropriations to assist Ukraine, the base DoD budget is likely to exceed $800 billion in FY 2023. The DoD budget request for FY 2024 submitted as part of the President's budget proposal was $842 billion.1

Total national defense spending in the President's budget was $880 billion for FY 2024, rising to $926 billion by FY 2027. By 2033, national defense spending in this proposal was projected to rise to approximately $1.06 trillion. We note that the Fiscal Responsibility Act of 2023 does not constrain national defense spending, and given rising geopolitical tensions in Europe and Asia, the possibility exists that the DoD base budget will exceed $1 trillion in nominal dollars this decade. While increases in defense spending are typically good news for Hampton Roads, we should also recognize that “trees don’t grow to the sky.” In other words, at some point, the rise in DoD spending will stall, and there will likely be a retrenchment of spending priorities.

The debate over the debt ceiling in the spring of 2023 centered around the level of the debt already issued by the federal government without significantly addressing the problem that the federal government continues to spend more money than it brings in. The last federal government surplus in FY 2000 is a distant memory (Graph 3). Budget discipline has waned as Congress and successive Presidents have vacillated between increasing expenditures and reducing tax rates. The structural imbalance between revenues and expenditures increased after the passage of the Tax Cuts and Jobs Act of 2017 and the abandonment of discretionary spending caps. The fiscal response to the COVID-19 pandemic pushed the annual deficit to more than $3 trillion and approximately $2.8 trillion in FY 2020 and FY 2021, respectively. Proclamations that the deficit has fallen ignore the simple fact that current deficits would be historic compared to deficits observed in previous decades. The President's FY 2024 budget submittal projects that deficits will exceed $1.7 trillion for the remainder of the decade and exceed $2 trillion annually at the beginning of the next decade. The passage of the Fiscal Responsibility Act will do little to address the root causes of the deficit: the rise of mandatory and defense spending coupled with the impacts of two decades of tax cuts that failed to pay for themselves as predicted.

In 1946, in the aftermath of World War II, publicly held federal debt peaked at 106.1% of GDP. However, public debt as a percentage of GDP fell rapidly in the post-World War period, reached a low of 22.2% in 1974, and has increased since then. In 1980, the federal debt held by the public increased slightly to 24.5% of GDP. Publicly held federal debt steadily increased to $16.6 trillion or 77.7% of GDP by 2019. In the aftermath of the fiscal response to the pandemic, publicly held federal debt is projected to reach $25.9 trillion in 2023 and will likely top $30.0 trillion by 2026. The publicly held debt to GDP ratio will pass 100% in 2024, and there are no signs of fiscal discipline on the horizon. At some point, the bill for living beyond our means will come due.

The downgrade of federal government debt by Fitch Ratings in August 2023 is, to some, a warning signal of things to come. Fitch noted that general government (federal, state, and local government) deficits are projected to rise due to “weaker federal revenues, new spending initiatives, and a higher interest burden.” By 2025, the interest-to-revenue ratio is expected to reach 10%, well above the median interest-to-revenue ratio of 2.8% for AA-rated debt and 1% for AAA-rated debt. At the same time, Fitch noted that governance has continued to deteriorate, with “repeated debt-limit political standards and last-minute resolutions” eroding confidence in fiscal management. Rising deficits and debt, hyperpartisan and performative politics, and the lack of a medium-term fiscal framework to address underlying fiscal issues will continue to plague the public sector in the coming years.

In the short term, the future looks bright for increases in DoD spending. However, the question is when will the lack of fiscal discipline result in markets viewing the United States as a riskier proposition? We don’t know the answer to this question, but it will likely happen during an economic contraction, amplifying the pain on taxpayers. At some point, whether by choice or by financial crisis, Congress will have to raise taxes and restrain expenditures. When it does so, the DoD, as the largest discretionary program in the federal government, will be squarely in the crosshairs.

2 Fitch Ratings, August 1, 2023, “Fitch Downgrades the United States’ Long-Term Ratings to ‘AA+’ from ‘AAA’; Outlook Stable.” Available at: https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023
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GRAPH 1
ESTIMATED DIRECT DEPARTMENT OF DEFENSE SPENDING IN HAMPTON ROADS, 2000-2023

Sources: Department of Defense and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Includes federal civilian and military personnel and procurement. Last updated in May 2023.
Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University; Office of the Secretary of Defense (Comptroller) Department of Defense, Defense Budget Materials — FY 2023. The FY 2022 budget presentation includes overseas contingency operations (OCO) in the DoD base budget. For backwards comparison, we present the DoD base as the sum of base funding and OCO funding. Includes emergency budget authority.
The pillars of the Hampton Roads economy remain strong.

**GRAPH 3**

**FEDERAL BUDGET SURPLUS OR DEFICIT IN BILLIONS OF NOMINAL DOLLARS, FISCAL YEAR 2000-FISCAL YEAR 2030**

Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2023 Presidential Budget (Table 1.1 – Summary of Receipts, Outlays, and Surpluses or Deficits: 1789 – 2026 and Congressional Budget Office May 2022 Budget and Economic Update, Table 1-1).
The Port of Virginia: Growth Continues

The Port of Virginia continues to provide wind in the sails of the Hampton Roads economy. From 2010 to 2019, general cargo traffic increased from approximately 15.3 million tons to 21.9 million tons, an increase of 43.2% (Graph 4). While traffic dipped by 3.9% in 2020, it surged back in 2021, reaching 25.4 million tons. Cargo traffic continued to climb in 2022, setting another record of 26.2 million tons, an increase of 19.2 from pre-pandemic levels observed in 2019.

Graph 5 displays the total number of Twenty-Foot Equivalent Container Units (TEUs) moved through the Port of Virginia from 1991 to 2022. In 1991, the Port moved almost 1 million TEUs. By 2008, TEU movement through the Port reached 2.1 million. TEU traffic dipped in the aftermath of the Great Recession of 2007-2009 and finally recovered fully in 2013. By 2019, TEU traffic had steadily increased to 2.9 million, an increase of 55.0% over the decade. As with general cargo tonnage, TEU movement dipped slightly in 2020 and then surged in 2021 to 3.5 million TEUs. In 2022, TEU traffic set another record, reaching 3.7 million.

Another sign that the investments in the Port of Virginia are paying off is the average number of TEUs per container vessel call. In Graph 6, we highlight how the average number of TEUs per container ship has increased from 2011 to 2022. As container ships have gotten larger due to shipping companies seeking economies of scale, ports worldwide have had a stark choice: invest in capacity to service these larger ships or fall by the wayside in the global cargo traffic supply chain. In 2011, the average number of TEUs per container vessel call was 1,158. By 2019, the average number of TEUs had grown to 2,214, an increase of 83.5% when compared to 2011. The average number of TEUs per call has continued to increase, reading 2,570 in 2022, an increase of 21.0% from 2019 and 122.0% from 2011. One only needs to look at the size of container ships transiting the deep-water channel to understand how the industry continues to move to larger container ships.
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GRAPH 4
GENERAL CARGO TONNAGE
PORT OF VIRGINIA, 1991-2022

Sources: Virginia Port Authority and the Dragas Center for Economic Analysis and Policy, Old Dominion University.
GRAPH 5
TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUS):
PORT OF VIRGINIA, 1991-2022

Sources: Virginia Port Authority and the Dragas Center for Economic Analysis and Policy, Old Dominion University.
Graph 6

Average Twenty-Foot Equivalent Container Units (TEUs) Per Container Vessel Call
Port of Virginia, 2011-2022

Sources: Virginia Port Authority and the Dragas Center for Economic Analysis and Policy, Old Dominion University.
Graph 7 displays the share of total loaded TEUs for four major East Coast ports from 2006 through 2022. Two phenomena are readily observable: the rise of the Port of Savannah and the relative decline of the Port of New York/New Jersey through 2020. The fortunes of the two ports appeared to change in 2021 and 2022, with the Port of New York/New Jersey gaining market share while the share of the Port of Savannah declined.

As for the Port of Virginia, its market share in 2022 is about the same as it has been for the past decade. At times, the port’s market share has increased or decreased, but these gains and losses have not persisted over time. Yes, the total amount of cargo moving through the Port of Virginia has increased, especially in the last two years, but it has also increased through other ports as well. The continuing challenge for the Port of Virginia is to gain market share and, to its credit, it has continued to make improvements and argue the case for infrastructure investments. It should continue to do so in the coming years.

Let’s dive into the data on the composition of TEUs. Graph 8 displays the shares of inbound TEUs for a selection of ports on the eastern seaboard. In 2006, 16.6% of inbound loaded TEUs arrived at the Port of Virginia. This share declined, however, to 14.9% in 2015 before recovering in succeeding years. Graph 8 again illustrates the rise of the Savannah port and the relative decline of Charleston and New York with respect to inbound TEUs. In other words, over the last decade, the Port of Virginia has maintained its share of loaded inbound TEUs while Savannah has taken market share from other ports of call.

Graph 9 illustrates the share of outbound loaded TEUs for the same selection of ports. Not only has the Port of Virginia maintained its market share of inbound loaded TEUs over the last decade, it has also gained market share with respect to outbound loaded TEUs. In 2010, the Port of Virginia accounted for approximately 19.2% of outbound loaded TEUs. This share increased to a high of 21.8% in 2014 and then was 19.2% again in 2019. In 2022, the Port of Virginia increased its market share to record levels of 23.1%. We can only interpret this as a positive signal of the Port of Virginia’s competitiveness.

Future expansion of activity in and around the Port of Virginia will require a concerted effort by local, regional, and state policy makers and private partners. The Port has successfully navigated economic and public health shocks and should be commended for its nimbleness in the face of adverse events. Economic development in Hampton Roads, especially ready-made, value-added manufacturing sites, is in the port’s interest. Import and re-export is a tried-and-true strategy, but the port needs action beyond its domain for this to come to fruition. Transportation networks are also of interest to the Port. Accelerating the construction of I-87, which would connect Hampton Roads and the Raleigh-Durham metro area, would likely accelerate demand for cargo through the Port of Virginia. The potential positive spillovers from the construction of I-87 are numerous and would positively influence the port’s trajectory and the Hampton Roads economy.
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GRAPH 7
SHARE OF TOTAL LOADED TEUS FOR SELECTED EAST COAST PORTS,
2006-2022

Sources: American Association of Port Authorities, port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Market shares are based on TEUs for Baltimore, Boston, Charleston, Virginia, New York/New Jersey and Savannah.
SHARE OF INBOUND LOADED TEUS FOR SELECTED EAST COAST PORTS, 2006-2022

Sources: American Association of Port Authorities, port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Market shares are based on TEUs for Baltimore, Boston, Charleston, Virginia, New York/New Jersey and Savannah.
GRAPH 9
SHARE OF OUTBOUND LOADED TEUS FOR SELECTED EAST COAST PORTS,
2006-2022

Sources: American Association of Port Authorities, port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Market shares are based on TEUs for Baltimore, Boston, Charleston, Virginia, New York/New Jersey and Savannah.
The Hotel Industry Continues to Shine

The hospitality and tourism industry in Hampton Roads had a good year in 2022. Graph 10 displays the supply of hotel rooms in the region as well as the average occupancy rate for these rooms from 2000 to 2022. In the latter half of the last decade, the average occupancy rate was 61.1%, falling precipitously to 49.1% in 2020 as a result of the COVID-19 pandemic and restrictions on business and social activity. The rebound in occupancy in 2021 was, to put it mildly, dramatic, with average occupancy reaching 61.6%. In 2022, 62.9% of hotel rooms were occupied “on average” in Hampton Roads, approaching the pre-pandemic record of 63.6% in 2019.

As also reported in Graph 10, the number of hotel rooms in the region increased by 229 rooms from 2021 to 2022 yet remained about 2,400 rooms below the peak of 2010. The contraction of supply in the previous decade appears to be over as hoteliers not only added rooms in the region in 2021 and 2022, but efforts to upscale the available inventory continued as well. It should be no surprise that hotel revenues increased in the face of strong demand for hotel rooms across the region.

Graph 11 displays nominal and real (inflation-adjusted) hotel revenues for Hampton Roads from 2000 to 2022. We focus on real hotel revenues to remove the influence of higher prices in general. Here we can see that real hotel revenues increased over the last decade, rising from $521.9 million dollars in 2010 to $616.3 million dollars in 2019. Real hotel revenues then fell by 56.7% in 2020 before recovering completely in 2021. While nominal hotel revenues climbed past $1.1 billion in 2022 or increased by 10% from their levels in 2021, we caution that higher inflation was responsible for some (if not most) of this increase as real hotel revenues only rose by 1.9% in 2022 from 2021.
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GRAPH 10
SUPPLY OF HOTEL ROOMS AND OCCUPANCY OF HOTEL ROOMS
HAMPTON ROADS, 2000-2022

Graph 11
Nominal and Real Hotel Revenue in Millions of Dollars
Hampton Roads, 2000-2022

Source: STR Trend Report, Various Years, U.S. Bureau of Economic Analysis, Consumer Price Index for all Urban Consumers (Base Year = 2000), and Dragas Center for Economic Analysis and Policy.
How well has the hotel industry in Hampton Roads fared when compared to other markets in the United States? In Graph 12, we compare the monthly performance of hotel revenue in the region with the top-25 markets in the nation as well as all other markets in the United States. Hampton Roads generally outperformed other hotel markets across the nation almost every month in 2022. Simply put, hotel revenues grew at a faster pace in 2022 relative to 2019 in Hampton Roads compared to the averages across the top-25 markets and markets outside the top 25 in the United States.

Let’s turn to how the local markets are faring in Hampton Roads relative to Virginia and the nation (Table 1). To examine whether the hotel sector has been improving or declining, we need a measure that captures revenue, demand, and the supply of rooms. The industry standard in this regard is Revenue per Available Room (RevPAR). If revenue increases, either due to higher demand for rooms or due to higher room rates, but the supply of rooms remains the same, then RevPAR increases as each available room is generating more revenue. On the other hand, if revenue increases but the supply of rooms increases at a greater rate, then RevPAR falls, as each available room “on average” is bringing less money. RevPAR is a valuable metric because it incorporates both demand and supply influences.

Our first observation is that Hotel Revenue in 2022, compared to 2019, has risen more quickly in Hampton Roads than across Virginia or the nation. Every sub-market in the region saw its revenue grow at a higher rate than the state or the nation. Within Hampton Roads, Virginia Beach observed the highest increase in revenue; its revenue increased by 24.7% followed closely by the Chesapeake/Suffolk market where revenue grew by 23.8%. The Williamsburg market observed the smallest regional growth (15.5%), in contrast to a 11% growth for the nation.

Our second observation is that RevPAR also grew faster in Hampton Roads compared to Virginia or the nation. Incidentally, this was true also for every sub-market in the region. Even though Virginia Beach, for example, observed a 7.7% increase in the supply of rooms, RevPAR grew 15.8% in 2022 when compared with 2019. In other words, Virginia Beach had more rooms, and these were generating higher revenue. The Norfolk-Portsmouth market experienced the greatest increase in rooms sold (6.3%), outpacing the increase in supply (6.1%) and saw its RevPAR increase by 12.9%.

Increases in RevPAR in Hampton Roads, its sub-markets, Virginia, and the nation were primarily due to hotels’ ability to charge higher room rates, due to pent-up demand for leisure travel, rather than substantial increases in demand as indicated by rooms sold. Table 1 shows that, in almost every market except for Northern Virginia and the state, Average Daily Rate increased by at least 12.7% while rooms sold increased at most by 6.3% and, in many cases, rooms sold actually declined.

The story of the hotel industry in Hampton Roads is another piece of good news for the regional economy. Tourism brings in “new” money to the region and, by all accounts, hoteliers are outperforming state and national averages. The success of the hotel industry in the aftermath of the COVID-19 pandemic illustrates why it is one of the pillars of the Hampton Roads economy.
GRAPH 12

PERCENT CHANGE IN MONTHLY HOTEL REVENUE FROM 2019-2022
HAMPTON ROADS AND SELECTED MARKETS IN THE UNITED STATES

Source: STR Monthly Trend Reports and Dragas Center for Economic Analysis and Policy, Old Dominion University.
### TABLE 1

PERCENT CHANGE IN SELECTED HOTEL PERFORMANCE INDICATORS
HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES
2019-2022

<table>
<thead>
<tr>
<th>Location</th>
<th>Hotel Revenue</th>
<th>Revenue per Available Room</th>
<th>Average Daily Rate</th>
<th>Supply of Rooms</th>
<th>Hotel Rooms Sold</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>11.0%</td>
<td>8.1%</td>
<td>13.6%</td>
<td>2.7%</td>
<td>-2.3%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Virginia</td>
<td>4.2%</td>
<td>3.4%</td>
<td>7.6%</td>
<td>0.8%</td>
<td>-3.2%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Northern Virginia</td>
<td>-17.0%</td>
<td>-10.7%</td>
<td>-1.6%</td>
<td>-7.0%</td>
<td>-15.6%</td>
<td>-9.3%</td>
</tr>
<tr>
<td>Hampton Roads</td>
<td>20.8%</td>
<td>17.7%</td>
<td>19.1%</td>
<td>2.6%</td>
<td>1.4%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Chesapeake/Suffolk</td>
<td>23.8%</td>
<td>23.8%</td>
<td>17.9%</td>
<td>0.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Newport News/ Hampton</td>
<td>15.7%</td>
<td>17.0%</td>
<td>18.0%</td>
<td>-1.1%</td>
<td>-1.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Norfolk/Portsmouth</td>
<td>19.8%</td>
<td>12.9%</td>
<td>12.7%</td>
<td>6.1%</td>
<td>6.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Virginia Beach</td>
<td>24.7%</td>
<td>15.8%</td>
<td>23.6%</td>
<td>7.7%</td>
<td>0.9%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Williamsburg*</td>
<td>15.5%</td>
<td>17.8%</td>
<td>17.6%</td>
<td>-1.9%</td>
<td>-1.8%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Sources: STR Trend Report for December 2022 and Dragas Center for Economic Analysis and Policy, Old Dominion University. *Williamsburg market includes City of Williamsburg and James City County.
A Brief Look at Housing in Hampton Roads

The last two decades have seen changing fortunes for the residential real estate market in Hampton Roads. From the boom of the early 2000s to the bust of the Great Recession, the region has seen real estate fortunes ebb and flow. The long “hangover” of foreclosures from the Great Recession finally evaporated in the latter half of the last decade, and real estate values surged during the pandemic. Now, with higher interest rates, the question is what does 2023 and beyond hold for the residential real estate market in Hampton Roads?

First, let’s provide some context about the interest rate environment. In Graph 13, we present the annual average interest rates for a conforming 30-year fixed rate mortgage from 1972-2022. We present this longer range of data to avoid recency bias, that is, anchoring our perspective on the most recent nadir in interest rates. Graph 13 illustrates two points: (1) home mortgage rates have declined, on average, over the last three decades, and (2) we are moving off the observed low of recent home mortgage rates. The rapid rise in interest rates is a result of the Federal Reserve trying to cool demand and reduce inflation. There is another impact to consider: many homeowners refinanced to get lower mortgage rates in the years prior to the pandemic and in 2020 and 2021. These homeowners may be “locked in” to these low interest rates and, when faced with the choice of selling or staying in a low-rate mortgage, may choose to remain in place. Until interest rates cool, the supply of existing homes entering the market may not be as robust as those buying would hope, maintaining pressure on existing home values.

Graph 14 provides some insight into the composition of sale for single-family residential housing in Hampton Roads. We must caution the reader that having a longer-term perspective is important. If we examined the change in existing single-family homes in Hampton Roads from 2021 to 2022, it would appear that sales are in a proverbial free-fall, declining by approximately 18.0% year-over-year. However, if we draw back, the number of sales in the region in 2022 (28,469), would have been a record in any year except for 2020 and 2021. In fact, the number of existing home sales in 2022 was about 3,700 homes higher than the peak observed prior to the Great Recession.

Yes, sales have slowed, but the pace has remained high relative to the pre-pandemic average.

One measure of demand is the number of days that an existing single-family home remains on the market for sale (Graph 15). Prior to the Great Recession, the average number of days on market for an existing home fell to a low of 27 in 2004 before rising to a peak of 102 days in 2011. Over the remainder of the decade, the average number of days on the market steadily fell, reaching 53 days in 2019. With mortgage rates falling to lows at the beginning of the current decade not observed since the early 1970s, home sales increased, and the number of average days on the market fell to 41 in 2020 and then again to 24 in 2021. In 2022, the average days on market for existing homes declined to a record 22 days. However, with the recent rise in mortgage interest rates, demand has cooled (somewhat), and the average number of days on market has increased in 2023. We do not believe that we will return to the previous post-recession peak unless there is a significant change in financial and economic conditions.

With constrained supply and sustained demand, the median sales price of existing homes in Hampton Roads continued to rise in 2022. In 2019, the median sales price was $234,000, rising to $255,000 in 2020 and again to $279,000 in 2021. In 2022, the median sales price of existing homes in the region reached $300,000, a rise of 7.5% from 2021. Even though mortgage rates are higher in 2023 than in the recent past, the evidence points to a continued rise in median sales prices of existing homes in 2023.

Why are prices increasing when interest rates have risen? The answer is simple: limited supply. There has not been an influx of homes into the single-family market. If we examine the ratio of selling prices to listing prices over the last three years, we observe that the average ratio has hovered around 100. In other words, homes entering the market continue to sell near or above the asking price. This would not occur if demand had slowed significantly, or supply had increased as well. Simply put, even with higher interest rates, there are not a lot of homes around for sale, and buyers continue to compete for the available (but scarce) listings.
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GRAPH 13
AVERAGE ANNUAL INTEREST RATE FOR 30-YEAR FIXED HOME MORTGAGE
1972-2022

GRAPH 14
EXISTING AND NEW CONSTRUCTION HOME SALES
HAMPTON ROADS, 2000-2022

Source: Real Estate Information Network and Old Dominion University Economic Forecasting Project. Figures reported here represent only those properties that are listed through REIN by its members and may not represent all new construction activity in our region.
THE PILLARS OF THE HAMPTON ROADS ECONOMY REMAIN STRONG

Graph 15

Average Days on Market for Existing Homes for Sale
Hampton Roads, 2000-2022

Source: Real Estate Information Network and Old Dominion University Economic Forecasting Project. Figures reported here represent only those properties that are listed through REIN by its members and may not represent all sales in our region.
Graph 16

Median Sales Price of Existing Single-Family Homes
Hampton Roads, 2000-2022

Source: Real Estate Information Network and Old Dominion University Economic Forecasting Project. Information Deemed Reliable But not Guaranteed. Figures reported here represent only those properties that are listed through REIN by its members and may not represent all sales activity in our region.
Final Thoughts

The pillars of the Hampton Roads economy had a good year. Defense spending flowing into the region continued to increase in 2022 and will increase in 2023. Given the discussions in Washington, DC, defense spending is likely to rise again in 2024. More federal dollars flowing into the region is good news for regional economic growth in the short term. Ongoing federal deficits and the national debt level are worrisome, and continued efforts to diversify the regional economy are important to build resilience.

The Port of Virginia continued to build upon the success of 2021 with another record level of cargo and TEU traffic in 2022. The Port successfully navigated the shocks associated with the COVID-19 pandemic and provides fuel for the regional (and state) economic engine. Increasing investments in the Port infrastructure as well as the regional transportation infrastructure is a smart bet that is likely to pay significant dividends for the Port and the economy as a whole.

The hotel industry shone in 2022, with another record year in terms of revenue. Occupancy continued to recover from the pandemic, and hoteliers earned more revenue per available room across the region. The hotel industry continued to outperform the state and nation with regards to the pandemic recovery and looks to have another banner year in 2023.

Now, as we look forward to 2024, the prospect for these pillars remains bright. The challenge for the region is to leverage these pillars to increase growth in the other sectors of the economy. The pillars have shown it is possible, and regional efforts to boost collaboration and investment are underway. Now is the time to lean into these activities to boost growth in and outside the pillars to lift residents’ economic fortunes across the region.