# Defense, the Port, and Tourism: The Pillars of the Economy

# DEFENSE, THE PORT, AND TOURISM: THE PILLARS OF THE ECONOMY

*"Bad news travels at the speed of light; good news travels like molasses."*
*Tracy Morgan, Comedian*

The Virginia Beach – Chesapeake – Norfolk ("Hampton Roads") Metropolitan Statistical Area (MSA) is known for its role in the national security of the nation, its deep-water port, and beaches and amenities that attract visitors to the region. While the region's economy is not solely determined by these economic 'pillars,' an improvement or decline in these pillars can alter the trajectory of the region.

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 would weigh on the state's economic performance.

**There is good news (mostly) to report about the pillars of the Hampton Roads economy. Defense dollars continued to flow into the metro area and should continue to do so in the near-term. While the Port of Virginia experienced a decline in cargo traffic in 2023, so did many other ports across the nation. More importantly, the declines in traffic at the Port of Virginia were less than most other major ports, a signal of the increasing competitiveness of the Port. The hotel industry in Hampton Roads continued to outperform many other regions across the Commonwealth though revenue in inflation-adjusted terms declined in 2023. Even with these challenges, the strength of the pillars contributed to the most robust pace of growth in the region this decade.**

**As we approach the middle of the current decade, now is the time to assess the recent performance of these key sectors and discuss the prospects for growth in the future. The pillars of the economy can provide a foundation upon which the region can 'lean into' its key industry clusters. While there are challenges, we also note that there are opportunities to grow each pillar and the overall economy. Now is not the time to accept the status quo but instead seek out investments and policies to foster a faster pace of regional economic growth. The pillars remain strong, but there are warning signs.**

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 has fared relative to other ports in the United States. The succeeding section examines the hotel industry and how it has fared when compared to state and national markets. We then wrap up with thoughts on how each pillar may fare in 2025 and beyond.

# Defense Spending Increases

Over the past decade, Department of Defense (DoD) funding has increased in nominal terms, from approximately $691.8 billion in Fiscal Year (FY) 2010 to $858.3 billion in FY 2023 (Graph 1).[1] The most recent Presidential Budget submission envisions nominal DoD spending (inclusive of supplementals) approaching $1 trillion by the end of the decade. With rising geopolitical tensions and military aid to Israel and Ukraine, an increasing defense budget seems all but a certainty.

**While misinformation and disinformation abound regarding military assistance to Ukraine, a simple fact remains clear: much of the military aid to Ukraine is actually expended in the United States. If the United States provides Ukraine with 155-mm artillery shells, for example, it does so by entering contracts with U.S. manufacturers to produce these shells. The shells are then typically shipped using U.S. military assets or U.S. contractors. The United States has also transferred existing (and typically older) weapon systems to Ukraine. In both cases, it would appear the United States is 'giving' Ukraine billions of dollars when, in fact, it is either transferring existing assets (already manufactured in the United States) or purchasing ammunition and supplies from U.S. producers.**

In FY 2022 and FY 2023, the DoD received approximately $62 billion in supplemental appropriations to provide material and assistance to Ukraine. In April 2024, Congress passed an additional $47.3 billion in supplemental appropriations as part of the Ukraine Supplemental Appropriations Act. At the same time, Congress passed the Israel Security Supplemental Appropriations Act ($26.4 billion) and the Indo-Pacific Security Supplemental Appropriations Act of 2024 ($8.1 billion). The DoD was the primary recipient of these supplemental appropriations in FY 2024. Whether military assistance to Ukraine will continue in FY 2025 is likely to be determined by the result of the Presidential election in November 2024.

As more resources are allocated to the DoD, some portion of these appropriations makes its way to Hampton Roads. We estimate that direct DoD spending in Hampton Roads exceeded $28 billion in 2023 and is on track to near (if not exceed) $30 billion by the end of the decade (see Graph 2). Directly or indirectly, the DoD accounts for approximately 4 out of every 10 dollars in economic activity in the region.

Can the DoD budget exceed $1 trillion by the end of the decade? This question is tied to the fiscal performance of the federal government and the willingness of bond markets to purchase U.S. government debt. Graph 3 illustrates receipts and outlays for the federal government as a percent of GDP. In response to the Great Recession of 2007 - 2009, Congress and the President agreed to provide significant stimulus to avoid an even deeper recession. In FY 2009, the gap between receipts and outlays was equal to 9.8% of GDP, the largest difference since the end of World War II.

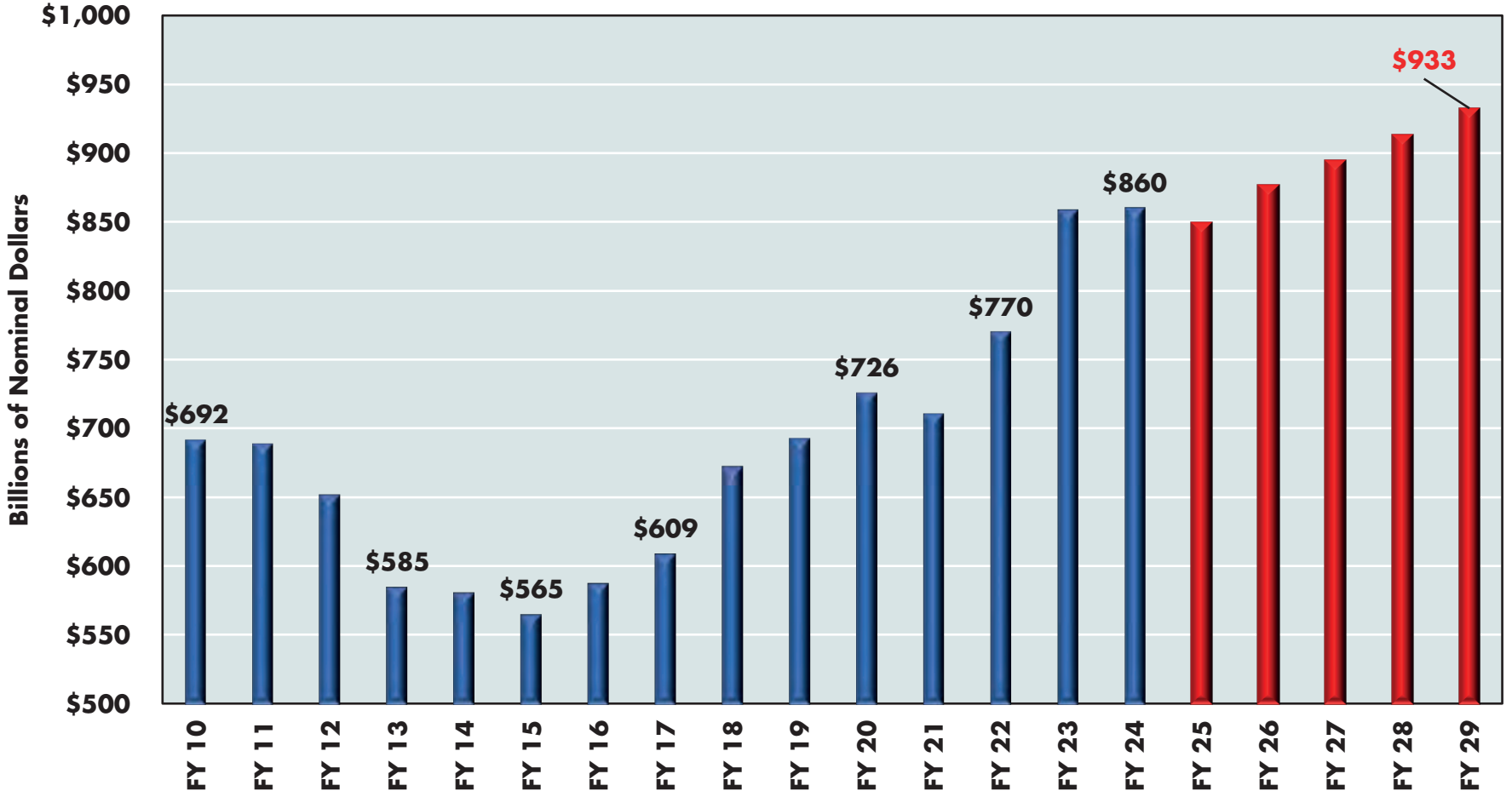
While the gap between receipts and outlays narrowed in the first half of the last decade, tax cuts and increased expenditures led to an increase in the difference between what was being brought in (receipts) and what was going out (outlays). In 2019, at the end of the longest peacetime expansion in recorded U.S. history, the gap between receipts and outlays was equal to 4.6% of GDP. In 2020, as a result of the COVID-19 pandemic and resultant fiscal stimulus, the gap exploded to 14.7% of GDP before falling to 12.1% of GDP in 2021. While some may herald an improvement in the fiscal environment in FY 2023, we note that the difference between receipts and outlays was 6.2% of GDP, the highest imbalance during a post-World War II economic expansion.

There is not much good news to report regarding the fiscal balance of the federal government. The President's FY 25 budget submittal projects that the gap between receipts and outlays will average 5.0% of GDP from FY 2025 to FY 2029. Simply put, there are deficits for the foreseeable future. Graph 4 illustrates how the federal deficit has evolved from FY 2000 to FY 2023 and is projected to grow over the remainder of the decade.

1 These amounts are obtained from Total Obligation Authority (TOA) which is the sum of all budget authority granted by Congress to a department or agency in a given fiscal year.

## GRAPH 1

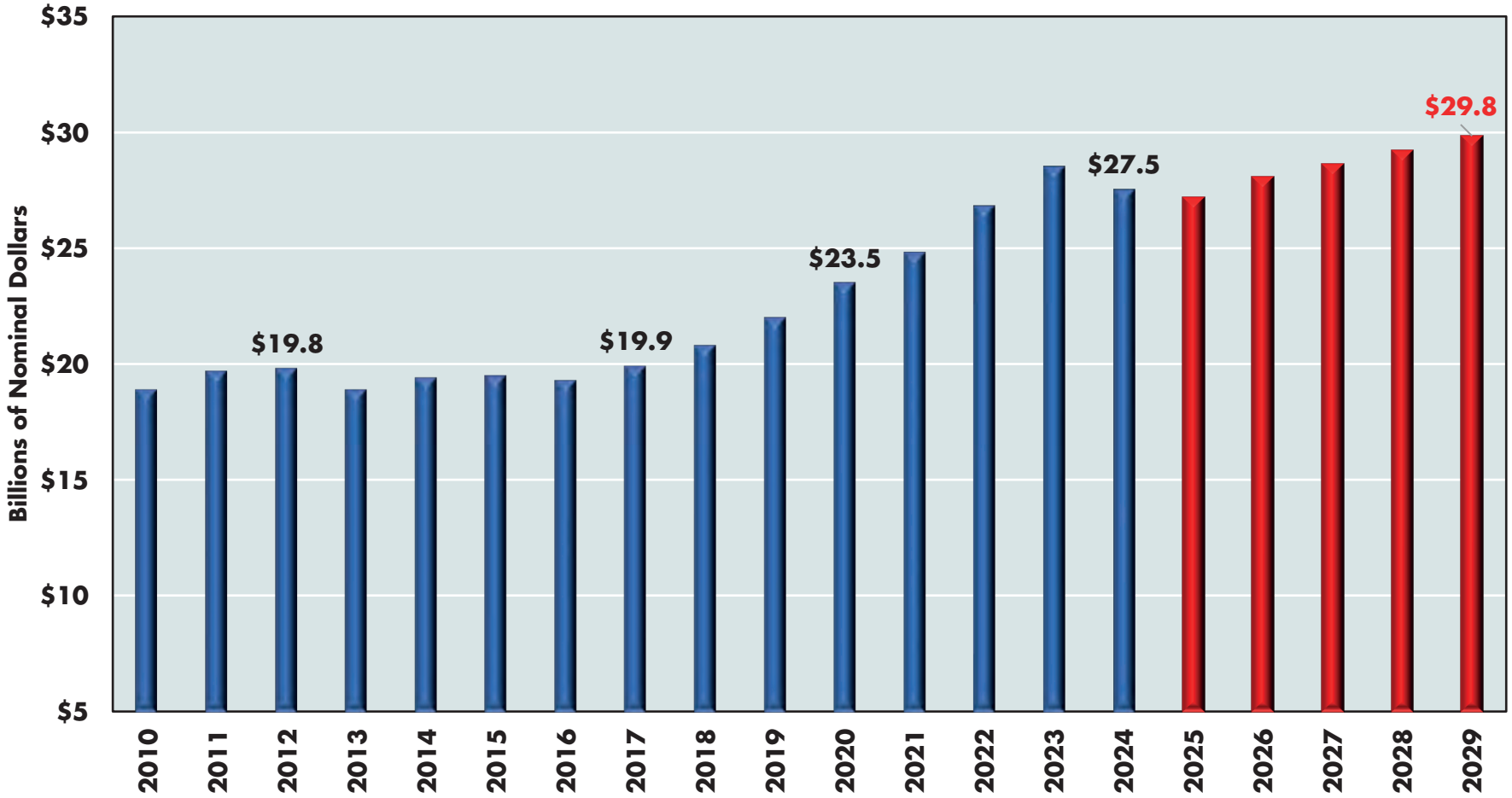
## DEPARTMENT OF DEFENSE TOTAL OBLIGATION AUTHORITY
## FISCAL YEAR 2010 - FISCAL YEAR 2029




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 2025. Inclusive of supplementals and overseas contingency operations funding. FY 2025 – FY 2029 projections do not include potential supplemental appropriations.

## GRAPH 2

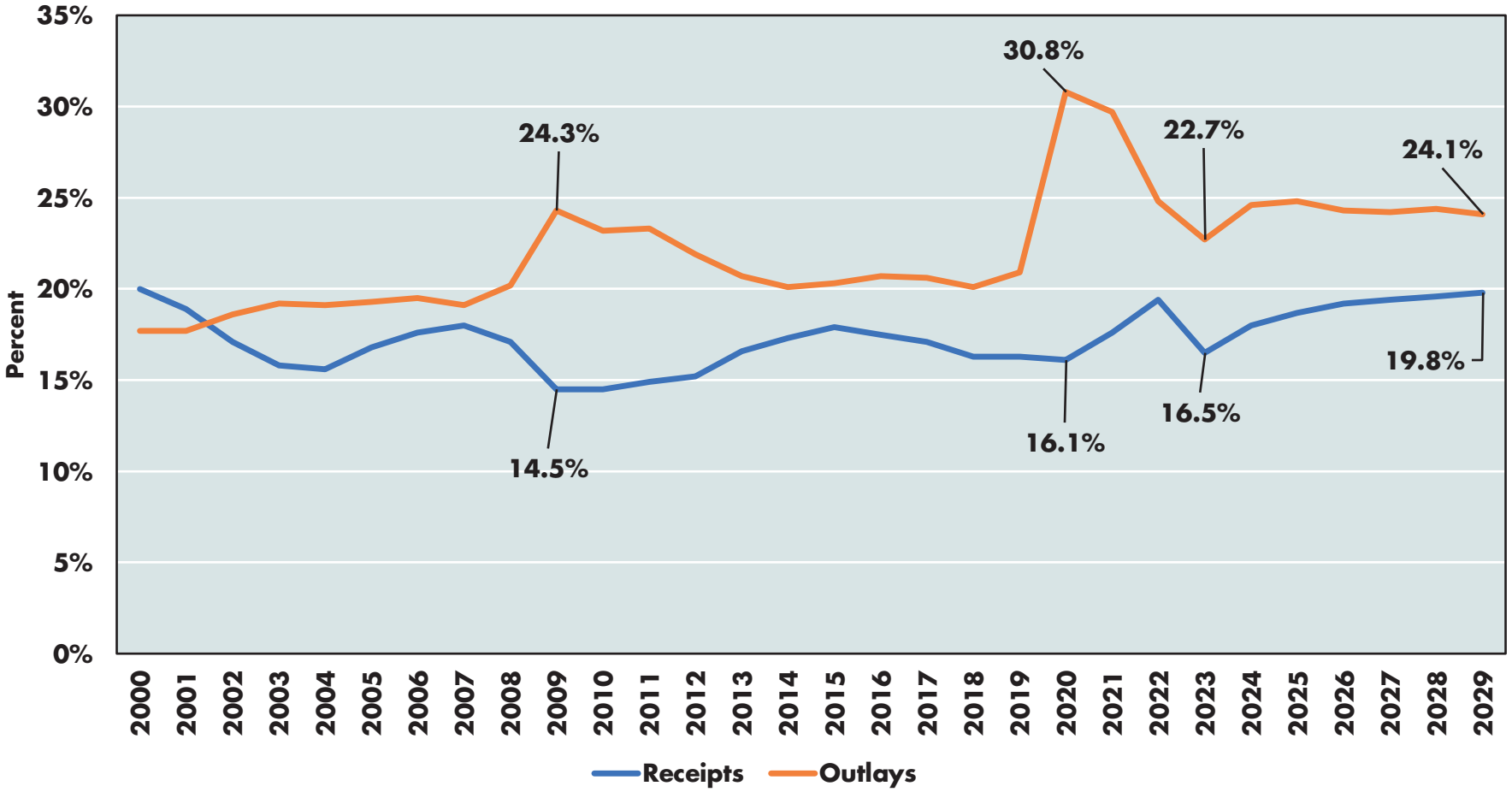
## ESTIMATED DIRECT DEPARTMENT OF DEFENSE SPENDING
## HAMPTON ROADS, 2010 - 2029




Sources: Department of Defense and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Includes federal civilian and military personnel and procurement. *FY 2010 – 2023 are actual expenditures, 2024 is our estimate, and 2025 – 2029 are our forecasts.

## GRAPH 3

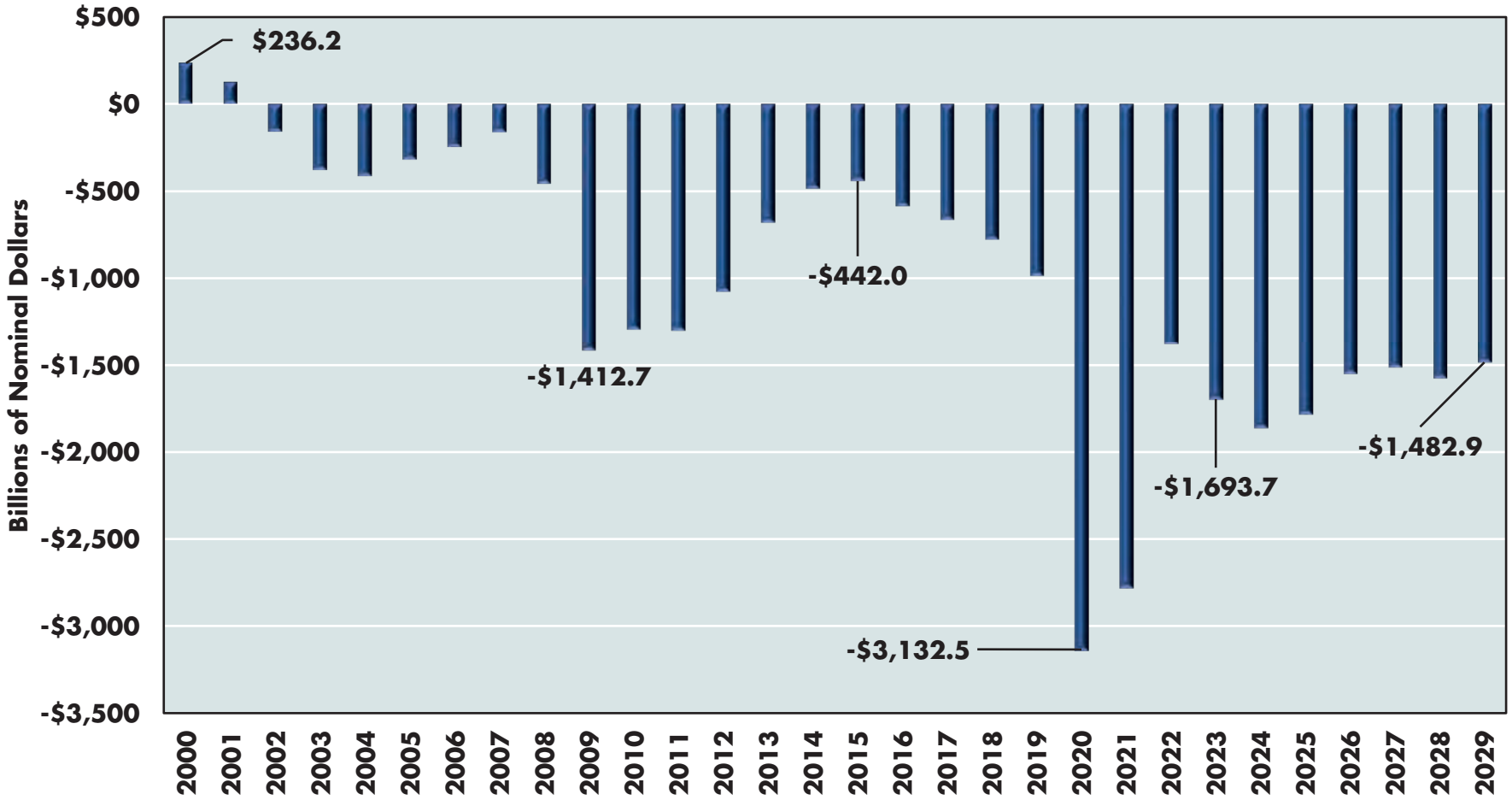
## RECEIPTS AND OUTLAYS AS A PERCENT OF GROSS DOMESTIC PRODUCT
## FISCAL YEAR 2000 - FISCAL YEAR 2029




Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2025 Presidential Budget (Table 1.2 – Summary of Receipts, Outlays, and Surpluses or Deficits as Percentages of GDP: 1930 – 2029). Total on and of budget surplus and/or deficit.

## GRAPH 4

## FEDERAL BUDGET SURPLUS OR DEFICIT IN BILLIONS OF NOMINAL DOLLARS, FISCAL YEAR 2000 - FISCAL YEAR 2029



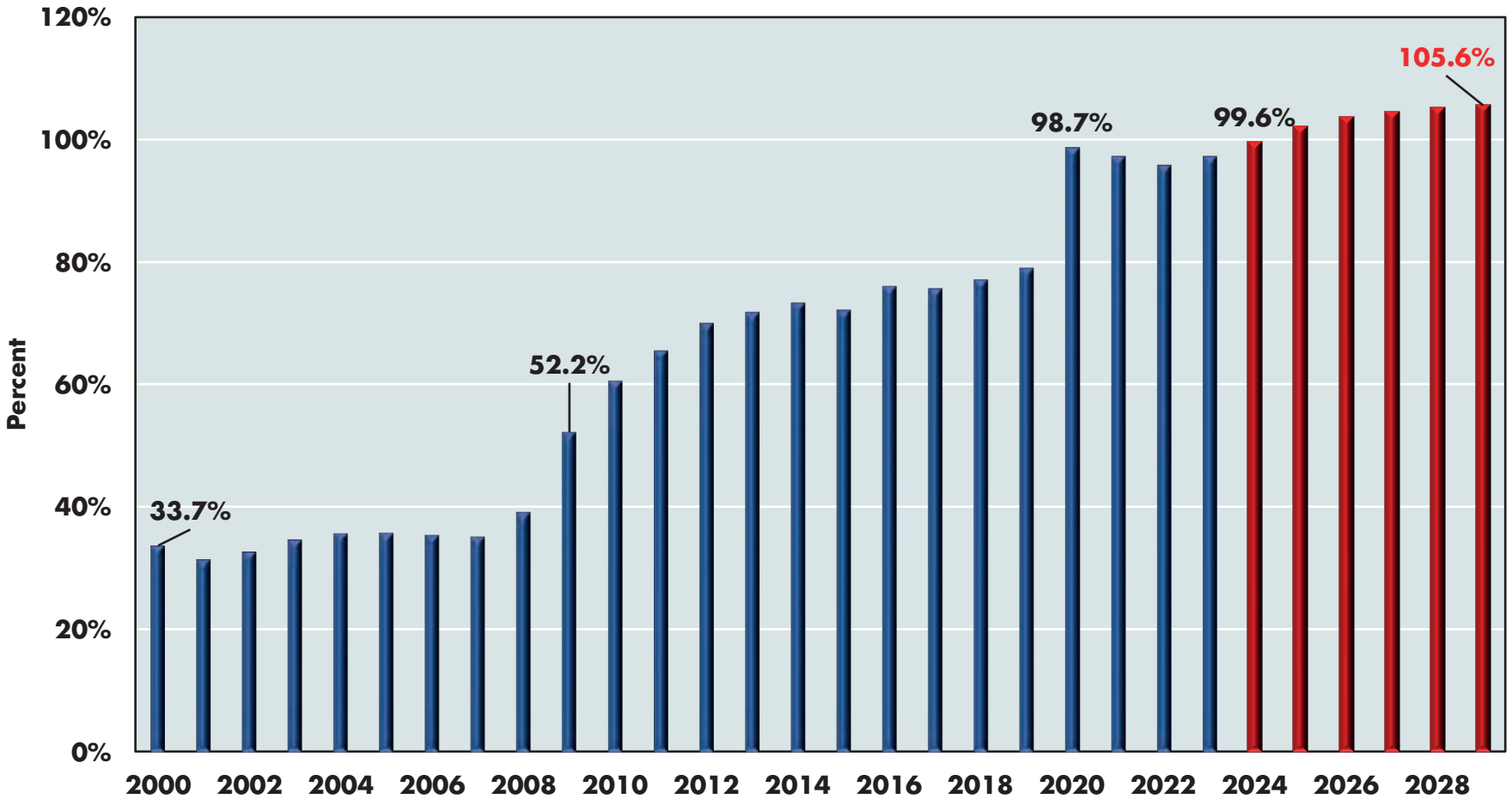

Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2025 Presidential Budget (Table 1.1 – Summary of Receipts, Outlays, and Surpluses or Deficits: 1789 – 2029). Total on and of budget surplus and/or deficit.

**Annual deficits must be financed through the sale of debt. Some federal debt is held by federal government accounts (one part of the government promises to pay back another part of the government) and some is held by the Federal Reserve System. The remainder of the debt is held by the public, both domestically and internationally. Graph 5 illustrates the growth of federal debt by the public and the Federal Reserve System from FY 2000 to FY 2029. In 2023, the publicly held federal debt equals 78.9% of GDP ($21.3 trillion) while the Federal Reserve System held debt equals to 18.4% of GDP ($5.0 trillion). Federal government accounts held debt equal to 25.0% of GDP ($6.7 trillion). In total, at the end of FY 2023, gross federal debt was equal to $32,988,990,000,000.**

Accumulating debt means the debt must be serviced and the cost of servicing the debt is interest. Graph 6 displays net interest outlays for the federal government from FY 2000 to FY 2029. The first observation is that net interest outlays are projected to exceed $1 trillion by the end of the decade (if not much sooner). Higher levels of federal debt, all else being equal, equate to higher net interest outlays. Yet, this is not the whole story. At the same time the federal government's fiscal balance is hemorrhaging, interest rates have risen on new debt. Simply put, as the Federal Reserve increased interest rates to combat inflation, it also increased the cost to the federal government of issuing new debt. Higher interest rates lead to increasing net interest payments, which, in turn, increase the budget deficit, which then leads to an increasing demand for new debt. Unless there is a major course correction in the halls of Congress, we are unlikely to escape this vicious cycle anytime soon. The question remains: when do these costs become unsustainable? When that happens, the impact on defense expenditures in Hampton Roads is likely to be significant, which, in turn, will negatively impact the economy of the region.

## GRAPH 5

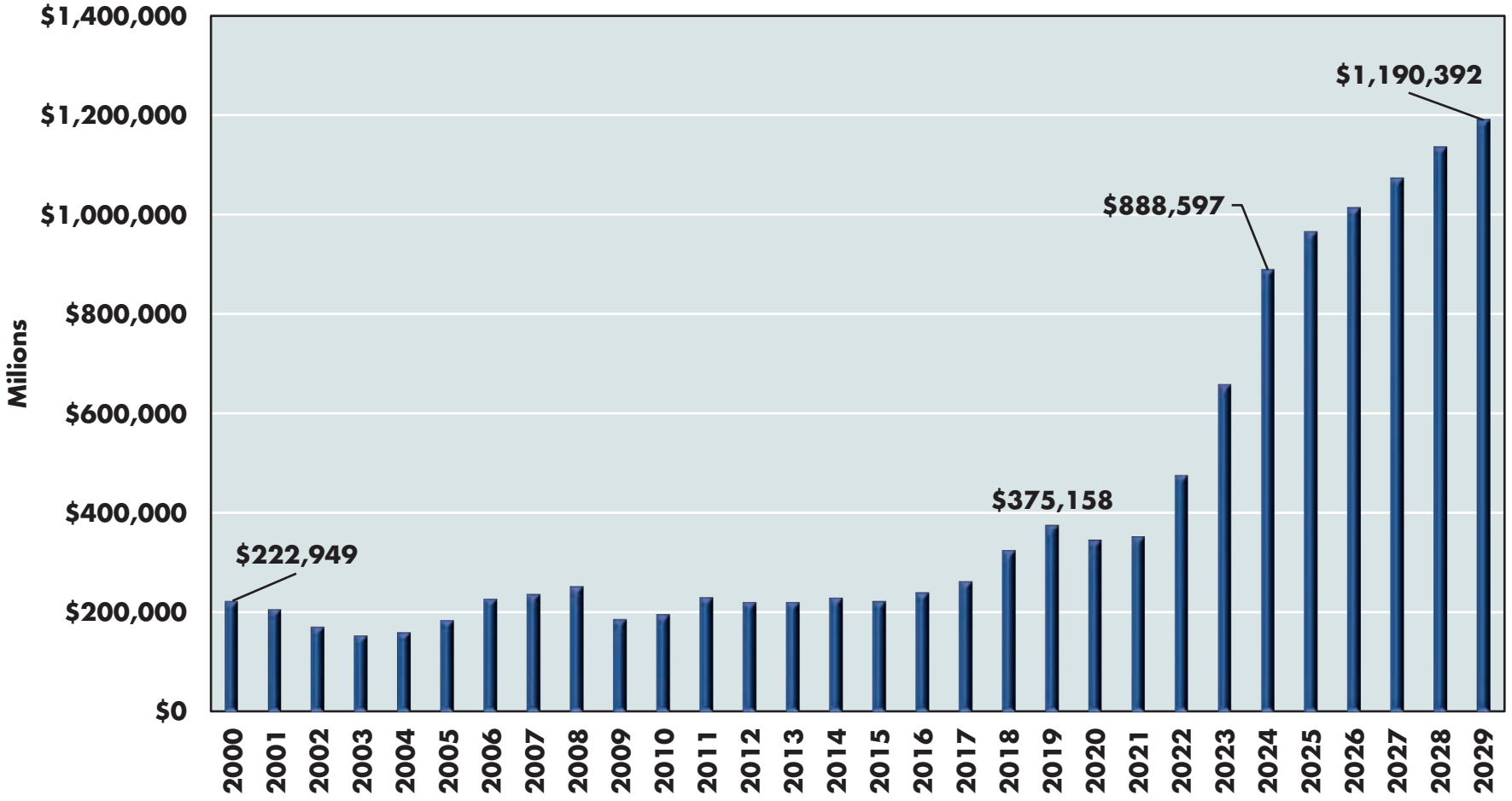
## TOTAL FEDERAL DEBT HELD BY THE PUBLIC AND FEDERAL RESERVE SYSTEM AS A PERCENT OF GDP
## FISCAL YEAR 2000 - FISCAL YEAR 2029




Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2025 Presidential Budget (Table 7.1– Federal Debt at the End of the Year: 1940 - 2029). Gross federal debt minus debt held by federal government accounts. Includes debt held by the Federal Reserve System.

## GRAPH 6

## NET INTEREST OUTLAYS
## FISCAL YEAR 2000 - FISCAL YEAR 2029




Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2025 Presidential Budget (Table 3.2 Outlays by Function and Subfunction: 1962 - 2029).

# The Port of Virginia

**In 2008, general cargo traffic at the Port of Virginia reached a record of 17.8 million tons (Graph 7). Global trade volumes and traffic at the Port of Virginia declined in 2009 due to the impact of a synchronized global financial crisis (known in the United States as the Great Recession). After falling to 14.9 million tons in 2009, traffic rebounded and had completely recovered by 2013. In 2019, after peaking at 21.9 million tons, traffic dipped to 21.1 million tons in 2020 (-3.7%) and then set records in 2021 (25.4 million tons) and 2022 (26.2 million tons). In 2023, however, general cargo traffic at the Port of Virginia declined by approximately 5.2% to 24.8 million tons.**

Graph 8 displays the total number of Twenty-Foot Equivalent Container Units (TEUs) moved through the Port of Virginia from 2000 to 2023. In 2000, the Port moved approximately 1.35 million TEUs. In 2007, TEU movement through the Port peaked at about 2.13 million before falling to 1.75 million in 2009. By 2013, total TEUs had recovered from the Great Recession and continued to grow, reaching 2.94 million in 2019. After falling slightly to 2.81 million (-4.4%) in 2020, total TEUs set records in 2021 (3.52 million) and 2022 (3.70 million) before declining by 11.2% to 3.29 million in 2023.

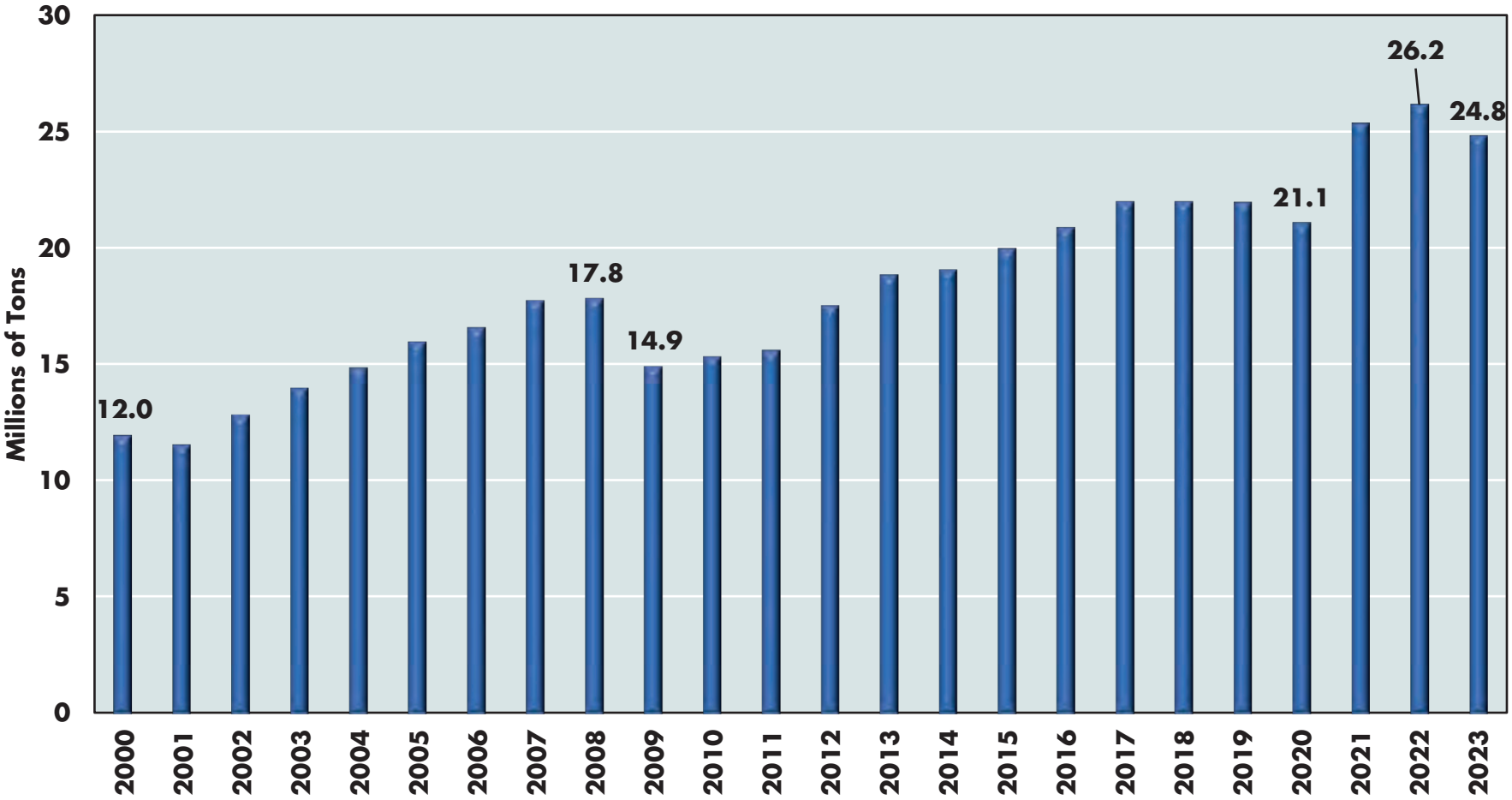
If overall cargo traffic and total TEUs declined in 2023, can we determine from where the declines originated? Graph 9 provides some insight by illustrating the levels of **loaded** inbound and outbound TEUs from 2010 to 2023. Before 2015, the flows of loaded inbound and outbound TEUs were roughly equivalent. From 2015 to 2022, loaded inbound TEUs grew by 59.7% (from 1.08 million to 1.73 million) while loaded outbound TEUs increased by about 7.8% (from 1.00 million to 1.08 million). In 2023, inbound loaded TEUs declined to 1.53 million while outbound loaded TEUs increased slightly to 1.10 million. In other words, the decline in total TEUs in 2023 was driven by a decline in empty TEU traffic and a fall in loaded inbound TEUs.

The decline in empty TEU traffic has a smaller impact on the economy of the region than a decline in loaded TEU traffic. Empty TEUS are moved from port to port and do not, since they are empty, carry goods. If a port ends up with too many empty TEUs in one year, the reallocation of those TEUs in another year would appear, on the surface, to be an increase (or decrease) in trade volumes. From our perspective, the increase in outbound loaded TEUs is a signal of the strength of the Port and its ability to compete. In other words, imports traveling by TEUs fell while exports traveling by TEUs increased, with the net change in traffic being negligible.

**There is an additional point to be made: the Port of Virginia outperformed most other major ports across the United States. Graph 10 displays the percent change in total loaded TEUs from 2022 to 2023. While total TEU traffic declined by 6.3% for the Port of Virginia, this decline was less than Los Angeles (-7.0%), Savannah (-11.5%), and New York/New Jersey (-13.6%), among others. We note that Charleston experienced a similar decline (-6.1%) while Houston (-0.3%) appears to have weathered the decline in TEUs.**

## GRAPH 7

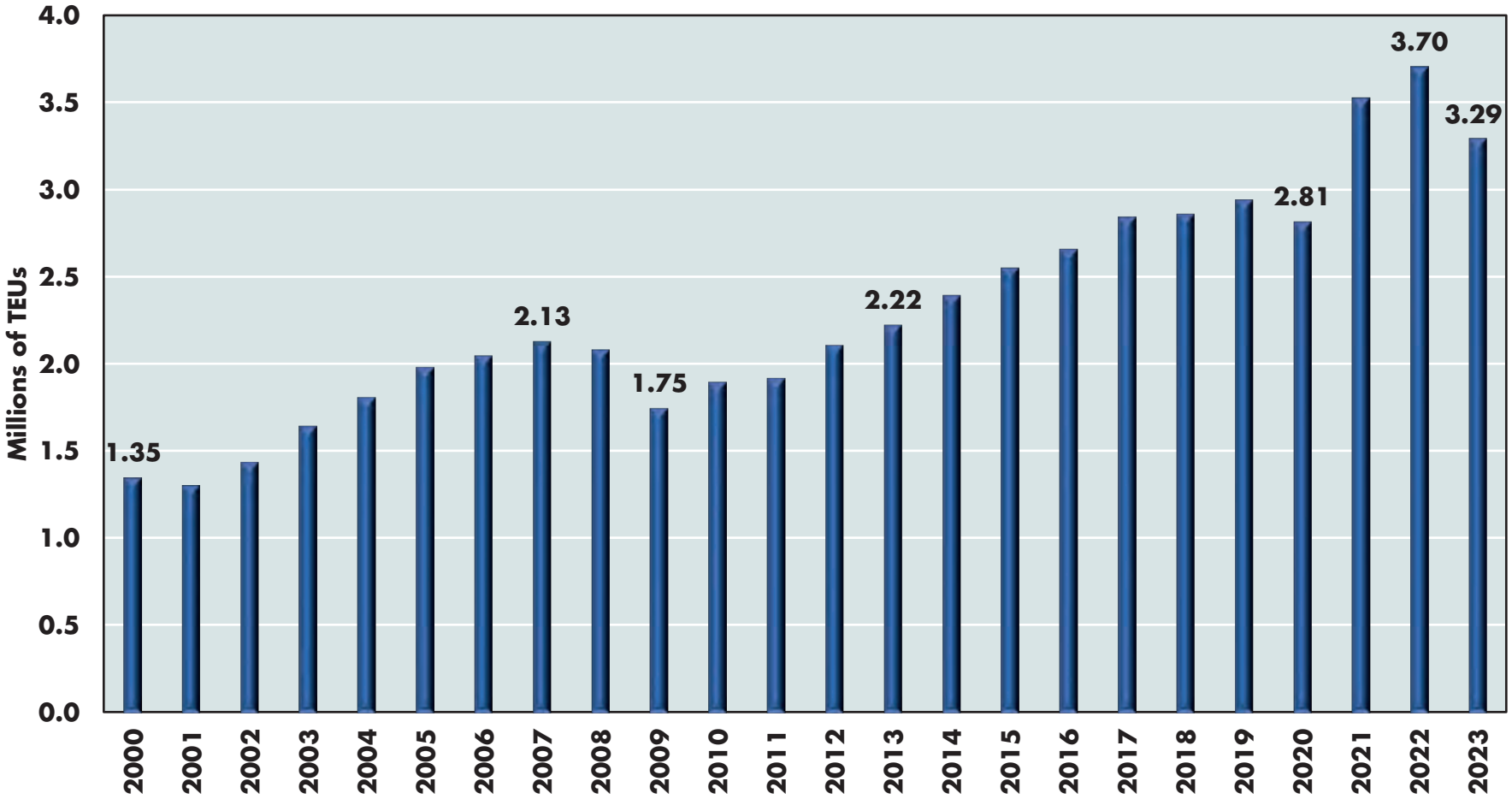
## GENERAL CARGO TONNAGE
## PORT OF VIRGINIA, 2000 - 2023




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

## GRAPH 8

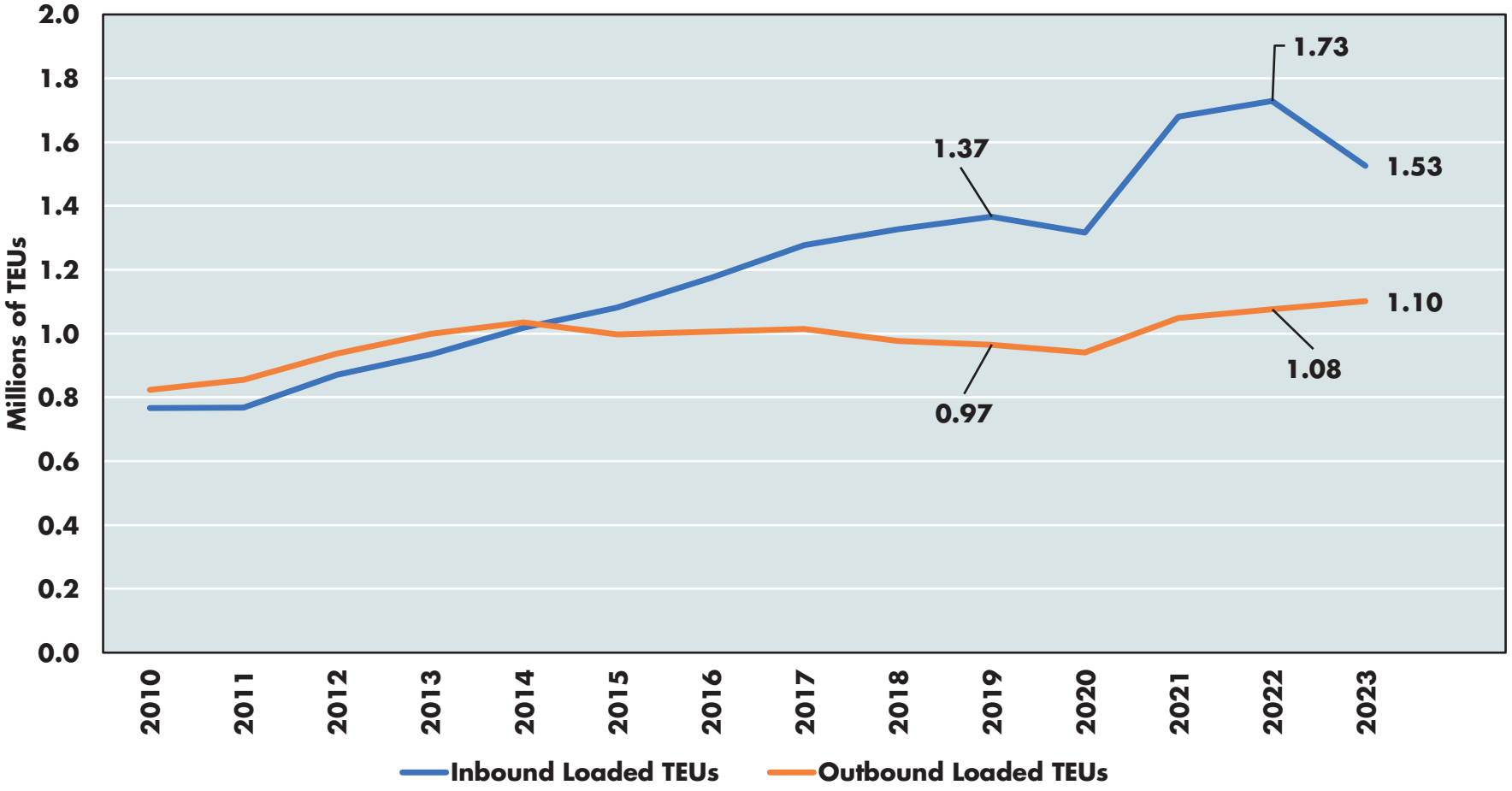
## TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUS)
## PORT OF VIRGINIA, 2000 - 2023




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

## GRAPH 9

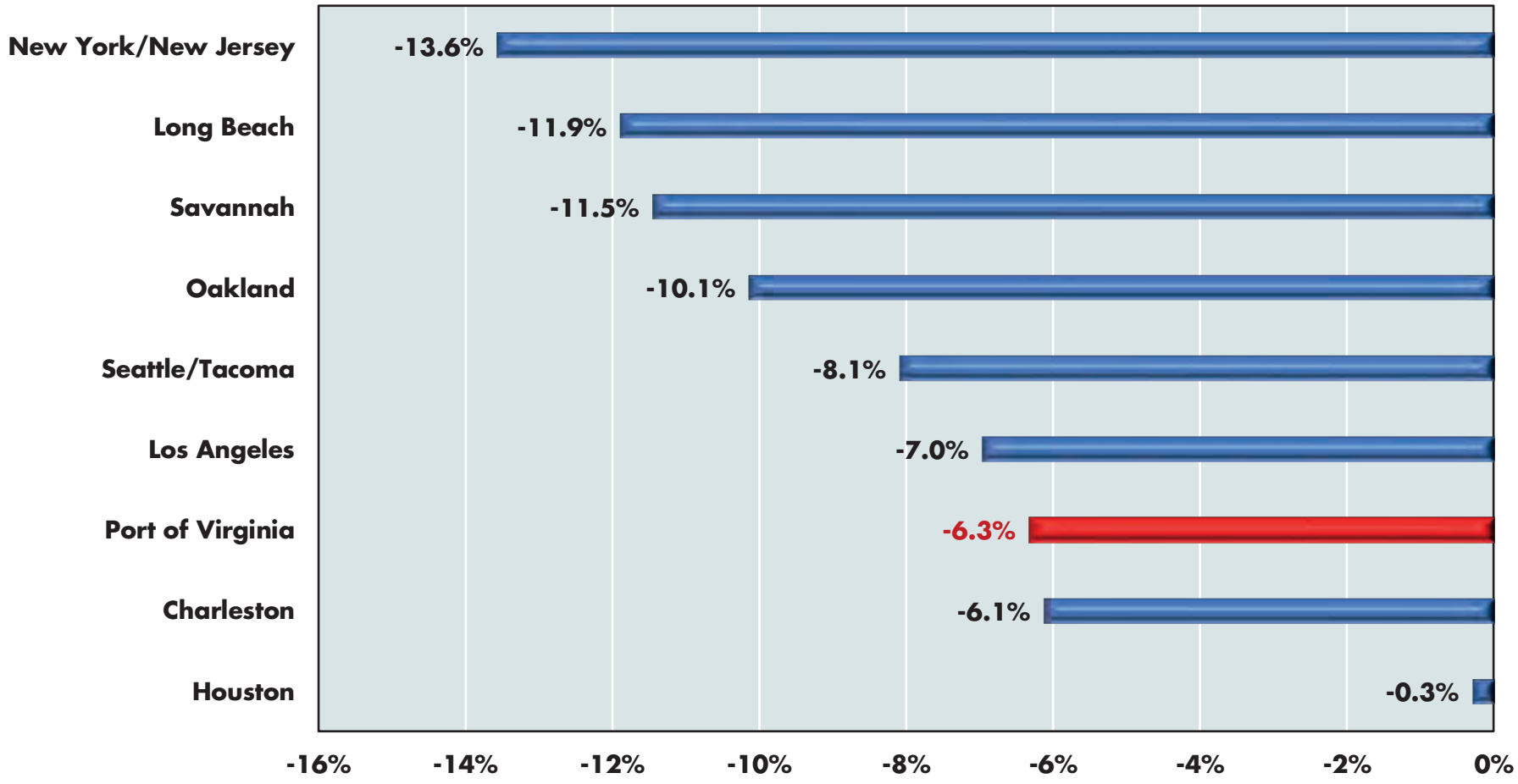
## LOADED TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUS)
## PORT OF VIRGINIA, 2000 - 2023




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

## GRAPH 10

### PERCENT CHANGE IN TOTAL LOADED TEUS
### SELECTED PORTS IN THE UNITED STATES, 2022 - 2023




Sources: Port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

Graphs 11 and 12 illustrate the percent change in inbound and outbound loaded TEUs, respectively, from 2022 to 2023. We observe declines in inbound TEUs traffic across all the selected ports for this period. Houston (-6.7%) experienced the lowest decline in inbound TEUs, followed by Los Angeles (-10.7%), the Port of Virginia (-11.7%), and Charleston (-11.8%). Savannah (-16.4%) and New York/New Jersey (-16.9%) saw the largest declines in inbound TEUs. With respect to outbound loaded TEUs, the Port of Virginia experienced growth (2.4%), outperforming Savannah (-0.9%) and New York/New Jersey (-1.1%), but lagged Charleston (5.6%). Houston experienced the largest increase (9.4%) while Long Beach (-9.4%) observed the most significant decline in outbound loaded TEUs from 2022 to 2023.

Graph 13 displays the share of total loaded TEUs for four major East Coast ports from 2006 through 2023. After peaking at 18.3% of loaded TEU traffic among the four ports in 2013, the Port of Virginia's market share declined to a low of 16.1% in 2020. In other words, while total loaded TEU traffic increased during this period, it also grew faster for the port of Savannah and the port of Charleston (and slower for New York/New Jersey). Since 2020, the Port of Virginia's share of total loaded TEUs has increased, climbing to 18.1% in 2023. It would appear that these increases in the share of total loaded TEUs are persistent, and this bodes well for the competitiveness of the Port of Virginia in 2024 and beyond.

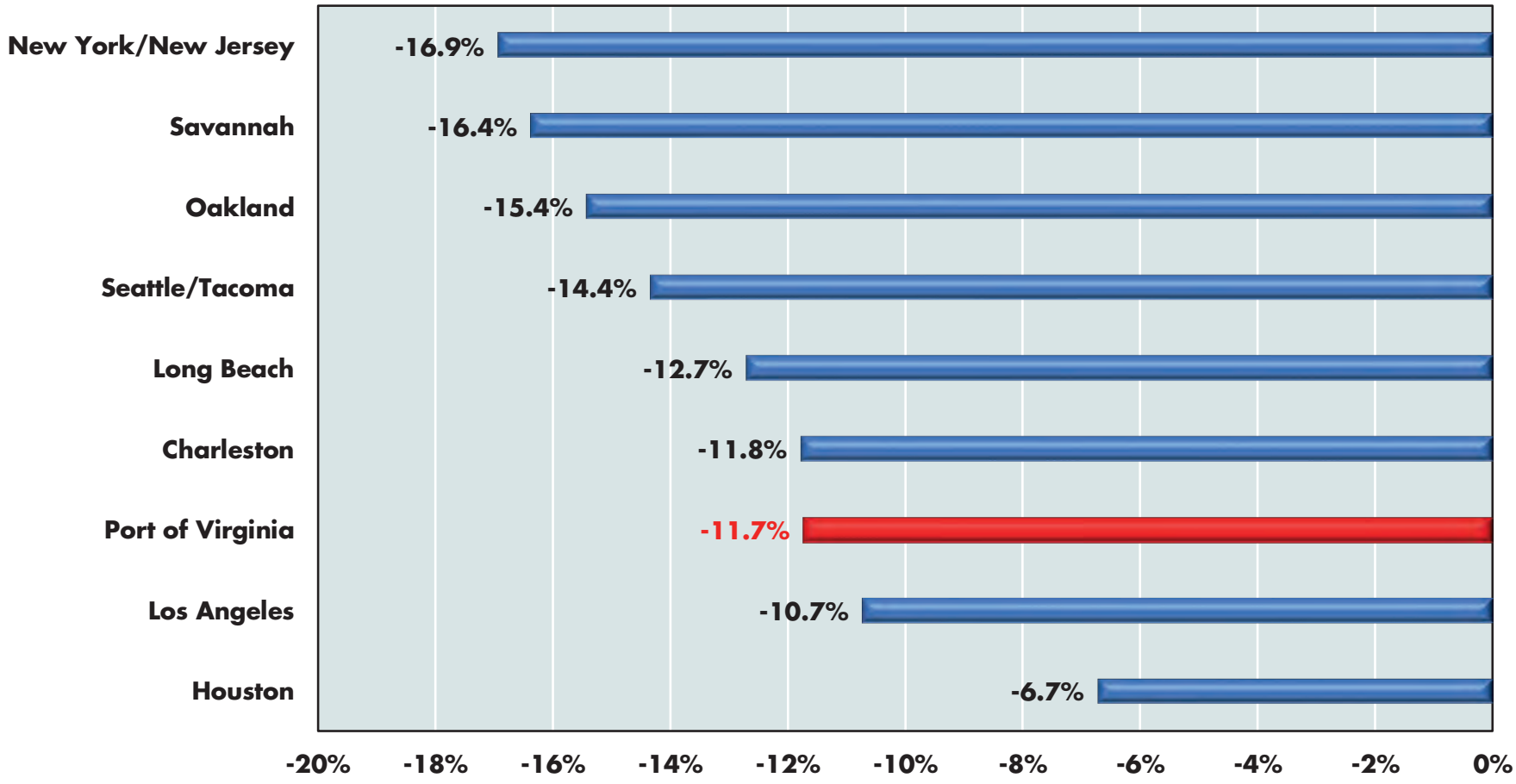
One measure of how traffic at the Port of Virginia has changed is the average number of TEUs per container vessel call. As illustrated in Graph 14, the average number of TEUs per call increased by 122.0% from 2011 to 2022. Larger ships were transporting more TEUs through the Port of Virginia. The average number of TEUs per call, however, declined from 2,569.9 in 2022 to 1,976.9 (-23.1%) in 2023. We would caution using the one-year decline in TEUs per container vessel call to make inferences about the performance of the Port of Virginia. Given the decade-plus increase in average TEUs per call, we will need to wait to determine whether the decline was only for one year or will be persistent. Data through June 2024 indicate that TEUs per container vessel call were12.5% higher compared to the same time in 2023.

**While cargo traffic and inbound loaded TEUs declined in 2023, we must place the data in context. The declines in traffic at the Port of Virginia were smaller than most other ports across the United States. In other words, in an environment where consumers and producers demanded fewer imports, the Port of Virginia outperformed many of its peers.**

**This led to gains in market share relative to its competitors on the Eastern Seaboard. These indicators suggest that investments made in the Port of Virginia over the last decade have borne fruit, and the Port is well positioned for expansion in the future. However, as we have noted in previous reports, the Port is also dependent on actions outside its gates. It's time for the Commonwealth to move forward with the construction of I-87, which would connect Hampton Roads and the Raleigh-Durham metro areas. These infrastructure improvements would not only benefit the Port but also boost the broader regional economy.**

## GRAPH 11

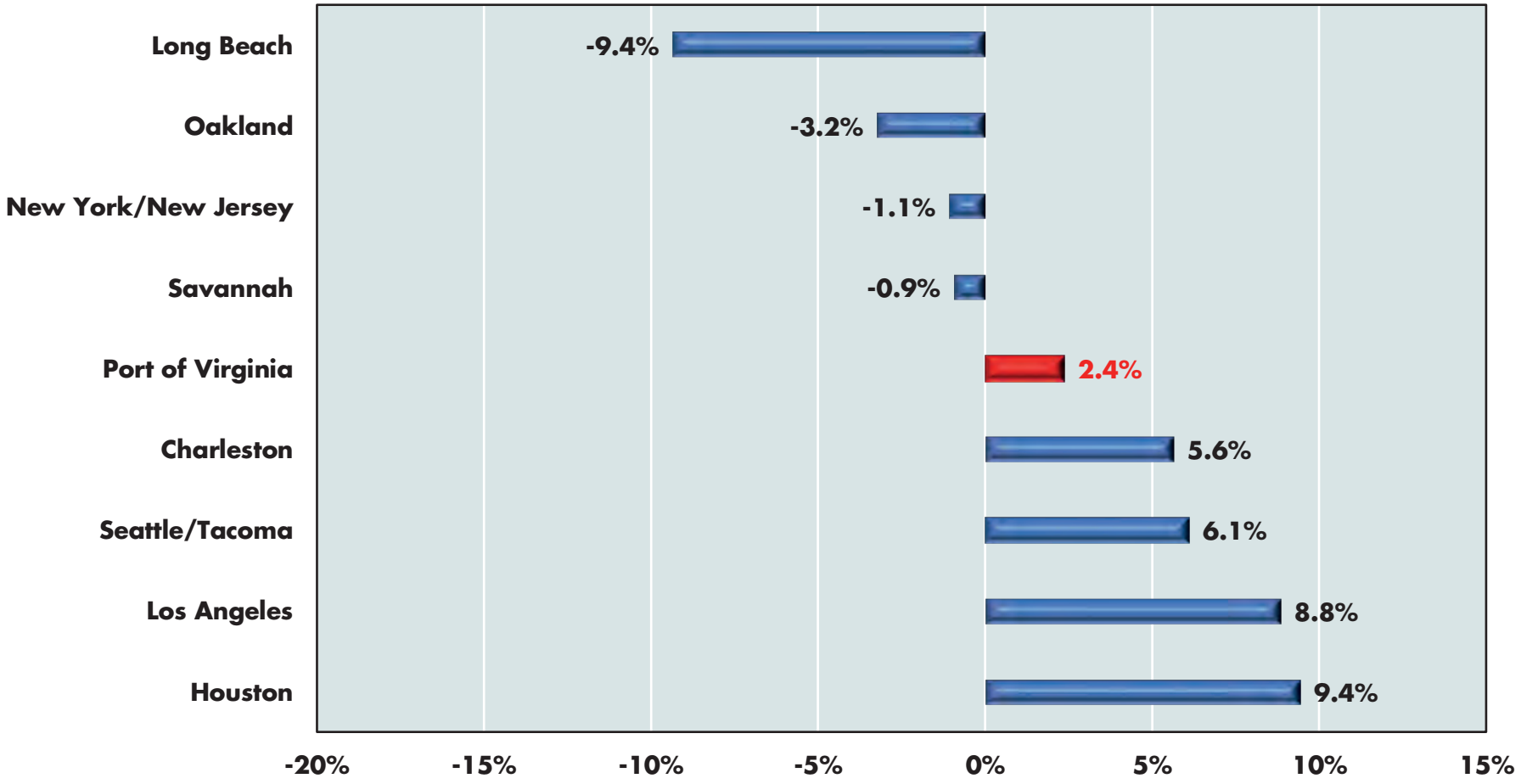
### PERCENT CHANGE IN INBOUND LOADED TEUS
### SELECTED PORTS IN THE UNITED STATES, 2022 - 2023




Sources: Port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

## GRAPH 12

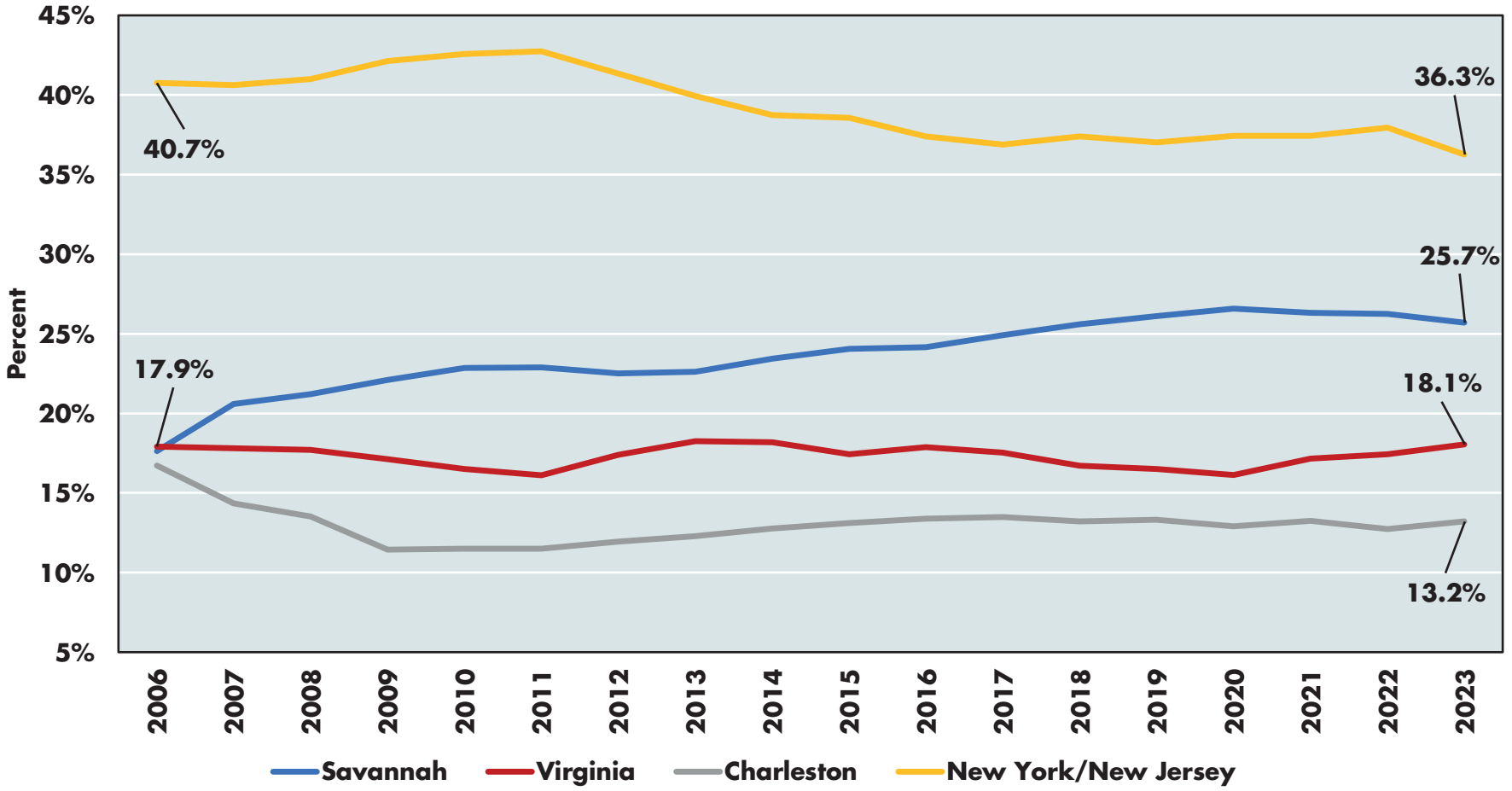
## PERCENT CHANGE IN OUTBOUND LOADED TEUS
## SELECTED PORTS IN THE UNITED STATES, 2022 - 2023




Sources: Port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

## GRAPH 13

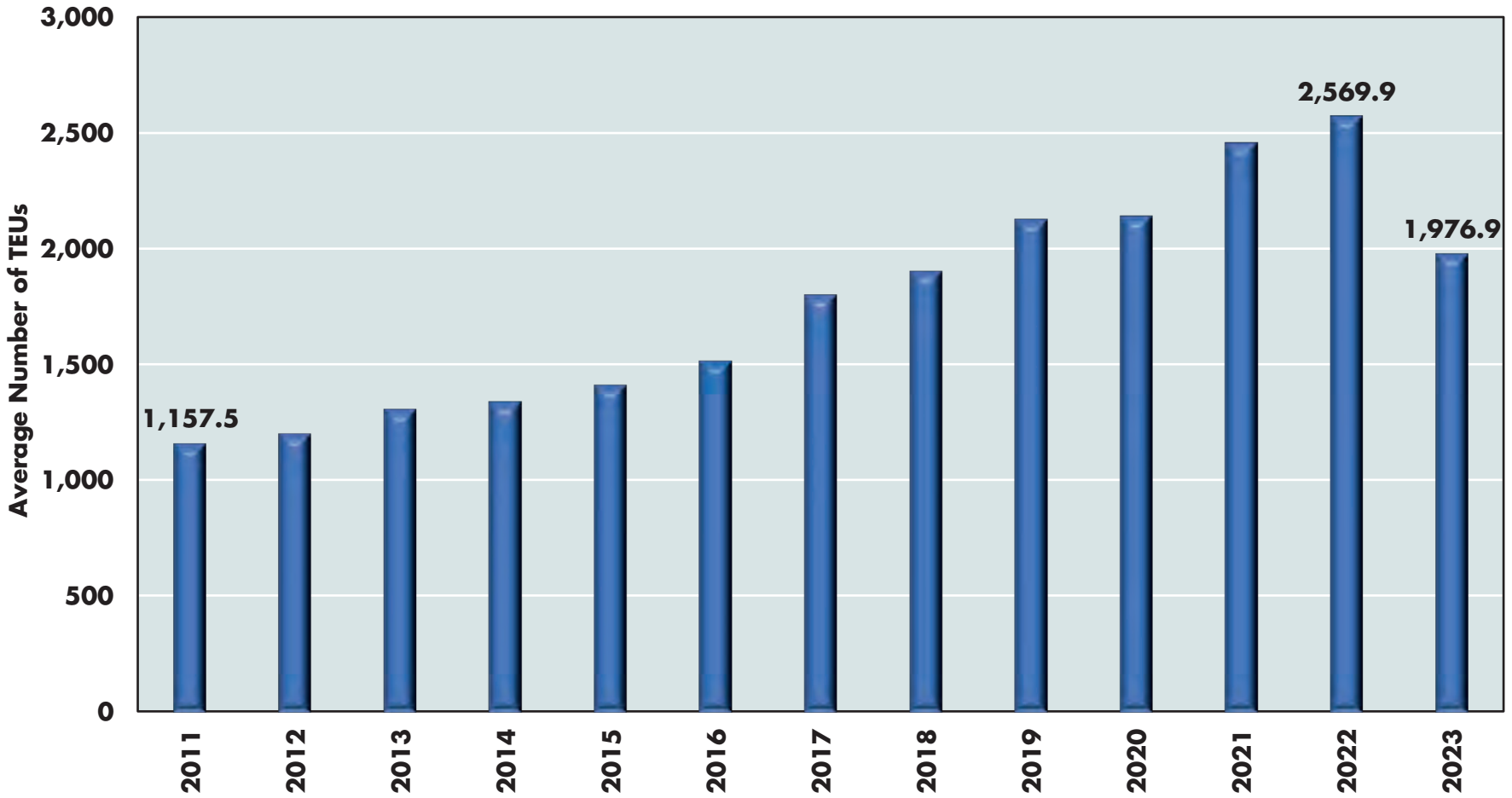
## SHARE OF TOTAL LOADED TEUS
## SELECTED EAST COAST PORTS, 2006 - 2023




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 14

## AVERAGE TEUS PER CONTAINER VESSEL CALL
## PORT OF VIRGINIA, 2011 - 2023




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

# The Hotel Industry: Good News Continues

The third pillar of the Hampton Roads economy is the travel and tourism industry. Here, we discuss the performance of the hotel industry as many travel and tourism measures rely on survey data. The data for the hotel industry is based on rooms, room nights sold, and the rate at which rooms were sold. Since the demand for hotel rooms in Hampton Roads is tightly correlated with how many tourists (and business people) visit the region, the health of the hotel industry is a key indicator of the health of the travel and tourism pillar. Graph 15 illustrates the average annual supply of hotel rooms in Hampton Roads from 2000 to 2023. The number of hotel rooms in the region increased by 283 rooms from 2022 to 2023 yet remained about 1,953 rooms below the peak of 2010.

While there were about 4.8% fewer hotel rooms in 2023 than 2010, this did not mean that the demand for rooms was weakened. Graph 16 displays the average annual occupancy rate for hotel rooms in Hampton Roads from 2000 to 2023. Post-COVID occupancy rates remain above those observed in many years in the previous decade. In other words, hoteliers were able to sell a higher proportion of their rooms post-COVID than pre-COVID.

Graph 17 displays nominal and real (inflation-adjusted) hotel revenues for Hampton Roads from 2000 to 2023. At first glance, it would appear that 2023 was a record year, with nominal hotel revenues exceeding $1.1 billion dollars. However, we must account for the impact of inflation and turn our discussion to real revenues. After the 37.0% decline in real revenues in 2020, hoteliers enjoyed a 64.1% increase in revenues in 2021. Real revenues increased by 0.9% in 2022, but then fell by 1.3% in 2023. The decline in occupancy in 2023 means that hoteliers' pricing power waned relative to 2022, which, in turn, indicates that they could not increase room rates sufficiently to account for inflation.

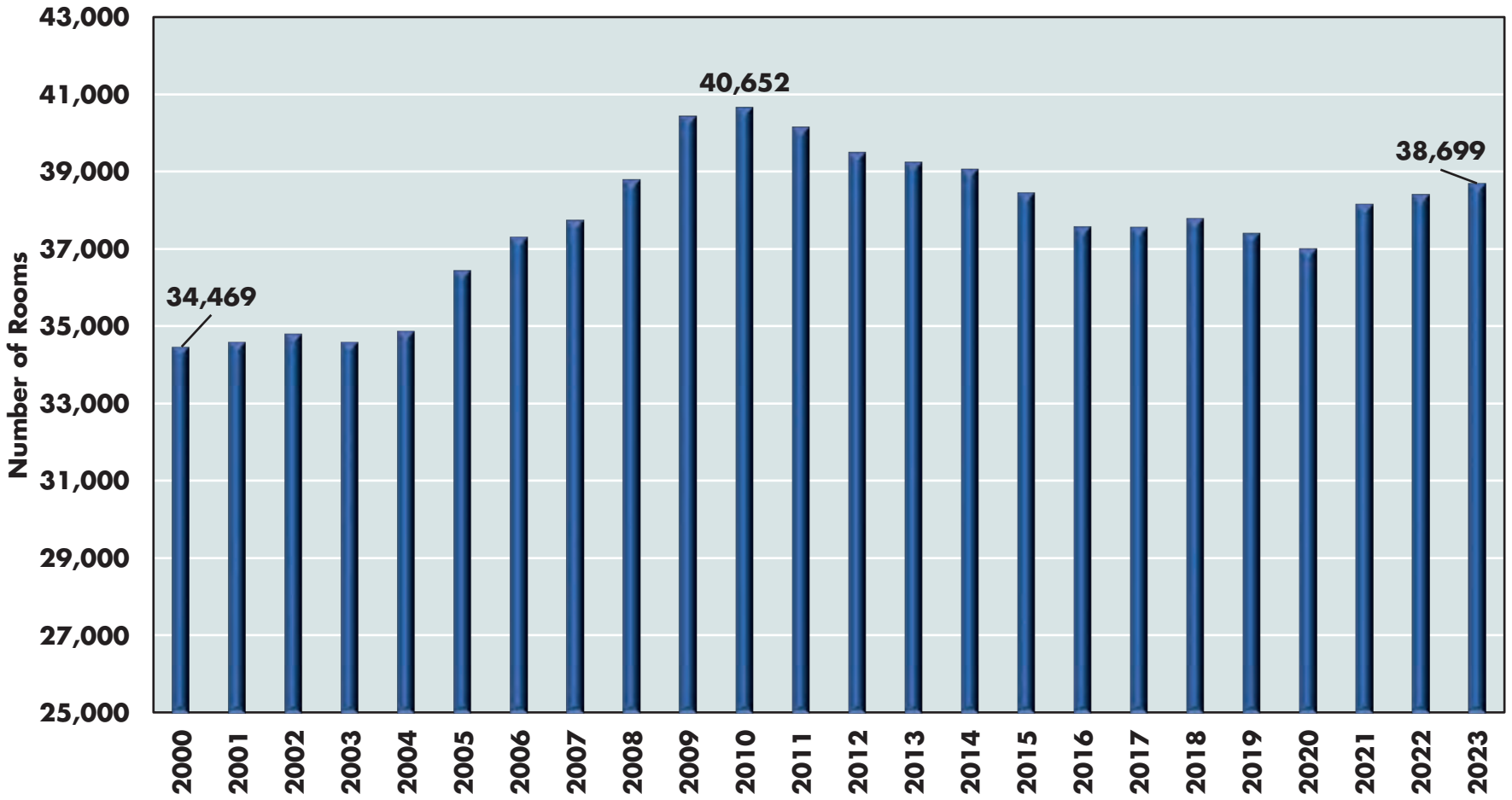
To examine whether the hotel sector has been improving or declining, we need a measure that captures revenue, demand, and the supply of rooms. The industry standard indicator in this regard is Revenue per Available Room (RevPAR). If revenue increases, either due to higher demand for rooms or due to higher 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.

How has Hampton Roads fared relative to the Commonwealth and the nation? Graph 18 contains a number of performance indicators for the hotel industry. From 2019 to 2023, the hotel industry in Hampton Roads outperformed the state and the nation. Over this period, the region saw a higher growth in supply of rooms, in demand for rooms, in Average Daily Rate (ADR), and in Revenue per Available Room (RevPAR) compared to the Commonwealth and the nation.

Let's turn to how the local markets are faring in Hampton Roads relative to Virginia and the nation (Table 1). Our first observation is that every sub-market in Hampton Roads, with the exception of the Williamsburg sub-market, experienced higher hotel revenue growth than the state or the nation from 2019 to 2023. The Virginia Beach sub-market experienced the highest rate of revenue growth (29.2%) and highest growth in supply of rooms (10.8%). The Chesapeake/Suffolk sub-market experienced the second highest growth in hotel revenue and the highest RevPAR growth over this period. The Norfolk/Portsmouth sub-market saw robust growth in the supply of rooms, revenue, and RevPAR as well.

## GRAPH 15

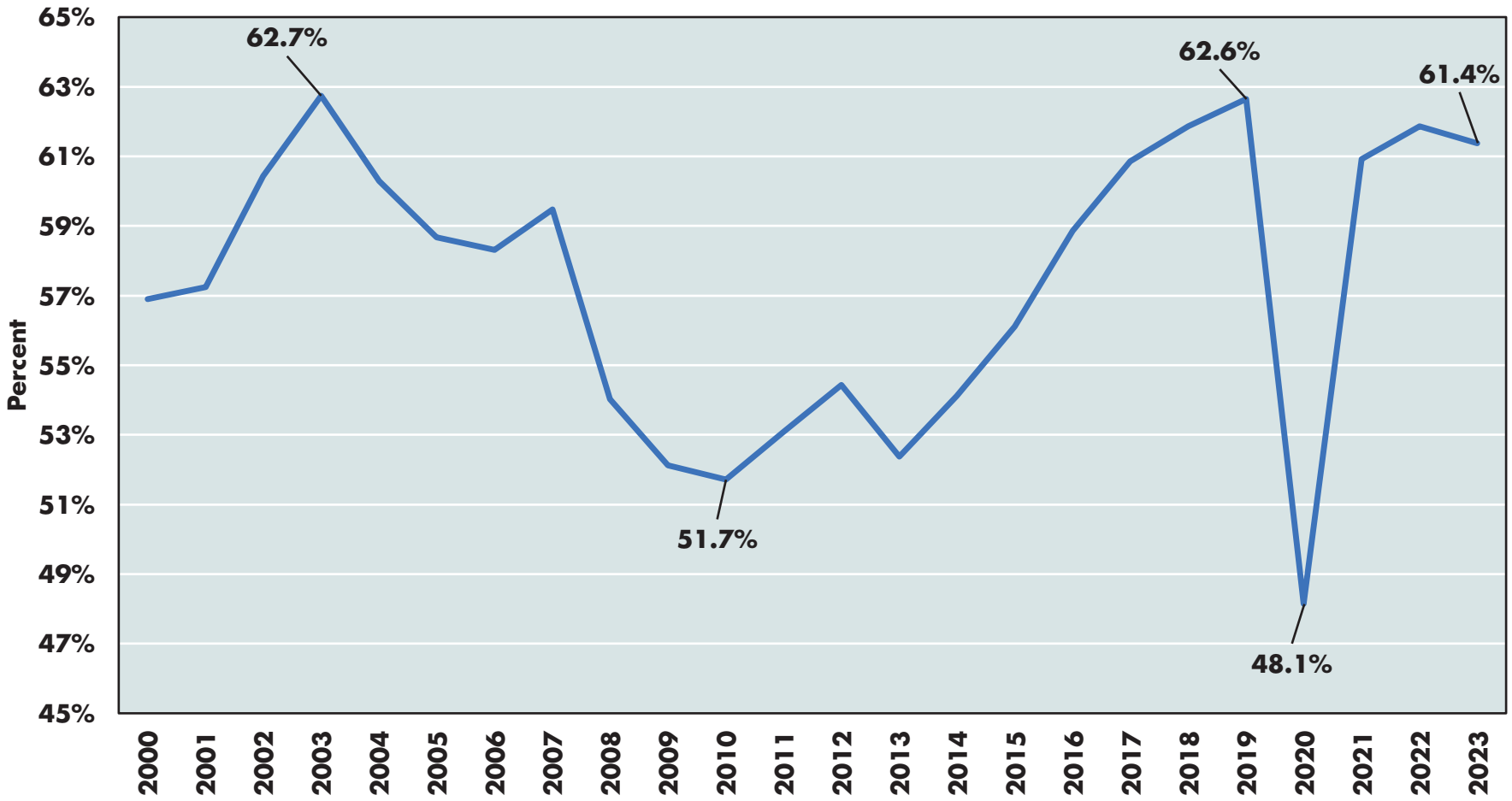
## AVERAGE ANNUAL SUPPLY OF HOTEL ROOMS
## HAMPTON ROADS, 2000 - 2023




Source: STR Trend Report, January 2024.

## GRAPH 16

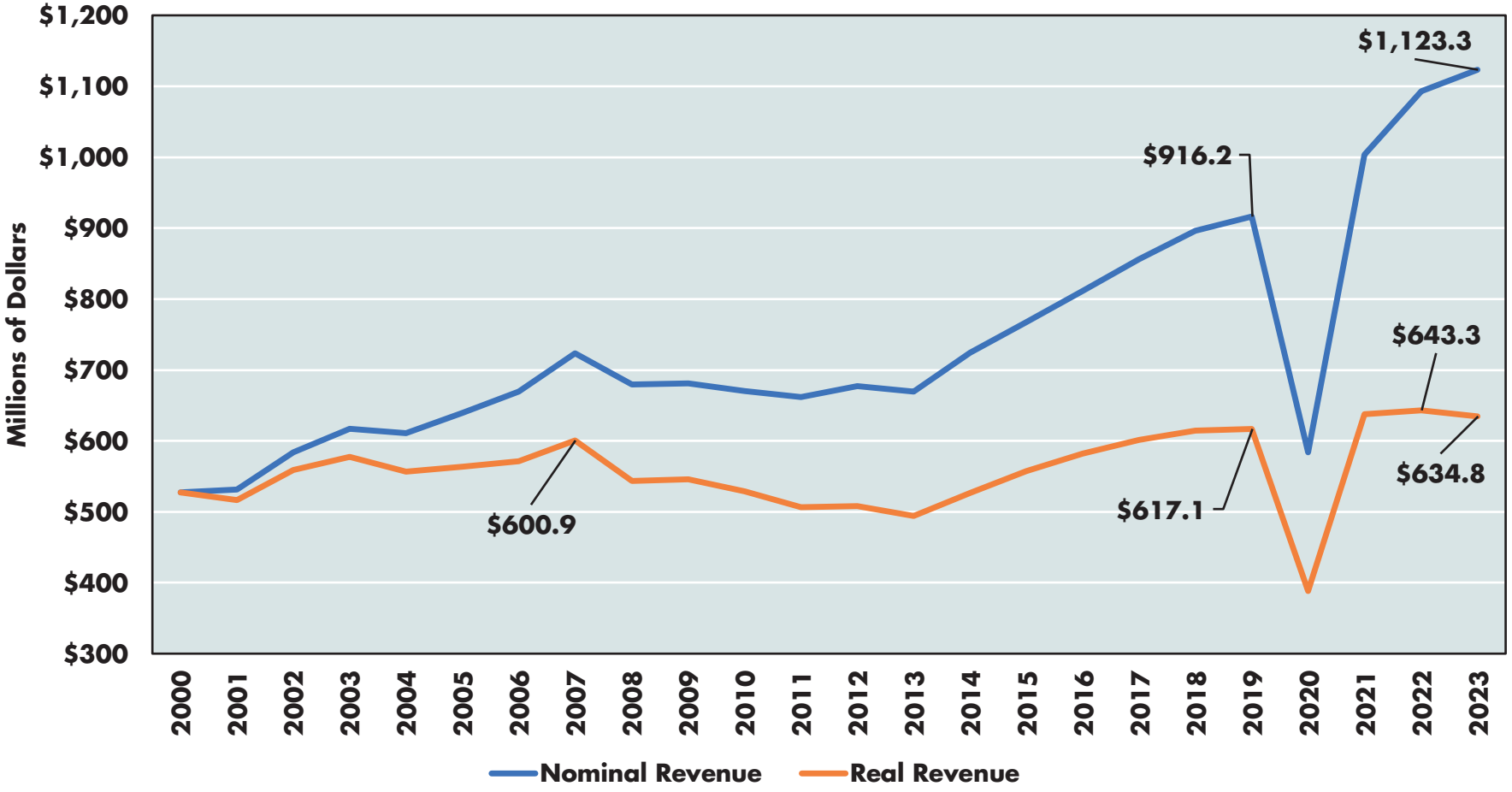
## AVERAGE ANNUAL HOTEL ROOM OCCUPANCY
## HAMPTON ROADS, 2000 - 2023




Source: STR Trend Report, January 2024.

## GRAPH 17

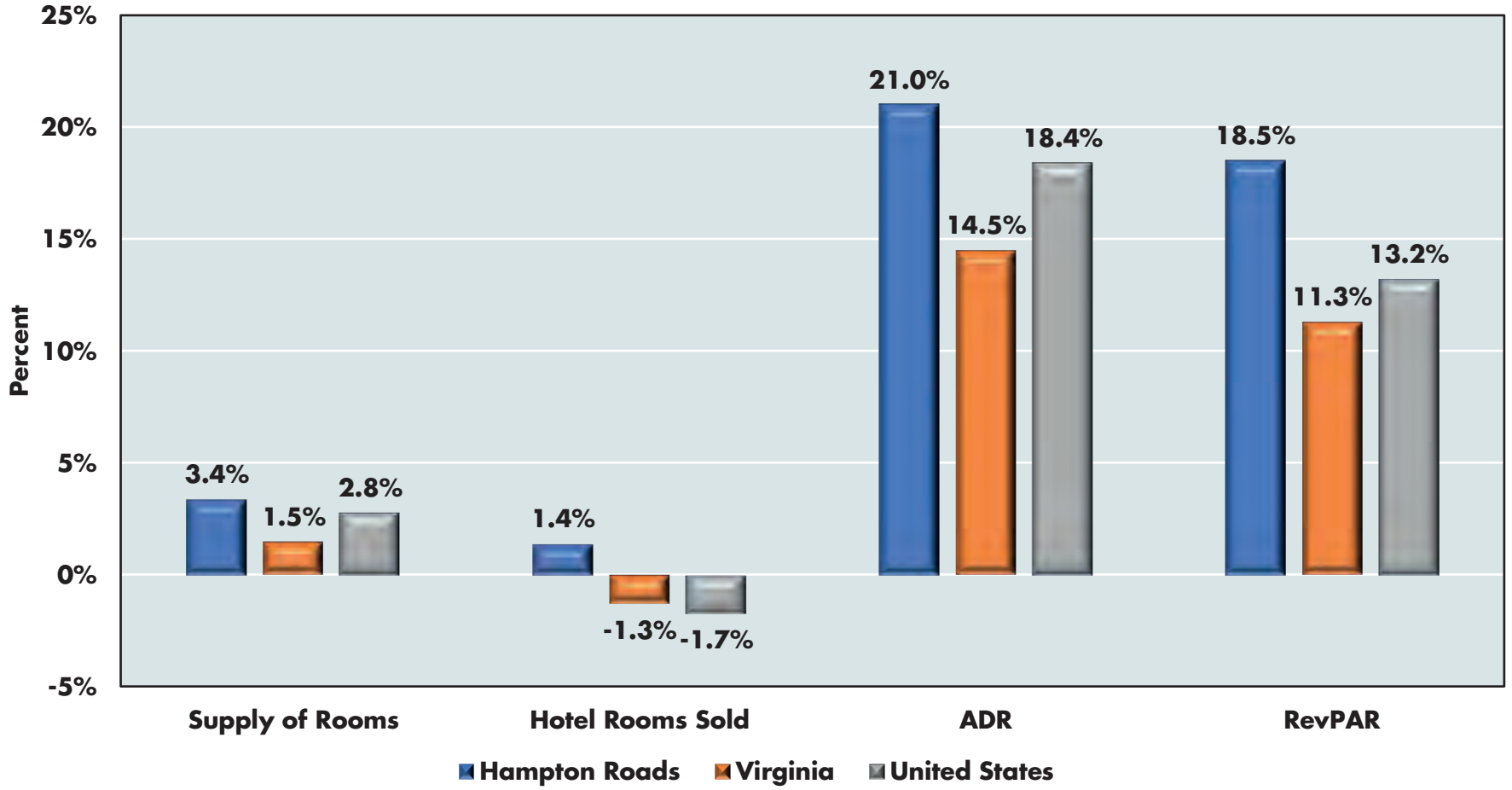
## NOMINAL AND REAL HOTEL REVENUE IN MILLIONS OF DOLLARS
## HAMPTON ROADS, 2000 - 2023




Source: STR Trend Report, January 2024, U.S. Bureau of Economic Analysis, Consumer Price Index for all Urban Consumers (Base Year = 2000), and the Dragas Center for Economic Analysis and Policy, Old Dominion University.

## GRAPH 18

## PERCENT CHANGE IN SELECTED HOTEL INDUSTRY INDICATORS
## HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES, 2019 - 2023




Source: STR Trend Report, January 2024.

**TABLE 1**

**PERCENT CHANGE IN SELECTED HOTEL PERFORMANCE INDICATORS HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES 2019 TO 2023**

| Sub-markets | Hotel Revenue | Revenue per Available Room | Supply of Rooms | Hotel Rooms Sold |
|---|---|---|---|---|
| Chesapeake/ Suffolk | 26.4% | 25.9% | 0.4% | 2.0% |
| Newport News/ Hampton | 18.5% | 20.7% | -1.8% | -2.1% |
| Norfolk/ Portsmouth | 25.7% | 18.5% | 6.1% | 5.4% |
| Virginia Beach | 29.2% | 16.6% | 10.8% | 4.3% |
| Williamsburg* | 8.7% | 11.0% | -2.1% | -3.9% |
| **Hampton Roads** | **22.6%** | **18.5%** | **3.4%** | **1.4%** |
| Northern Virginia | -2.3% | 4.0% | -6.1% | -10.4% |
| Virginia | 13.0% | 11.3% | 1.5% | -1.3% |
| USA | 16.4% | 13.2% | 2.8% | -1.7% |

Source: STR Trend Report January 2024 and the Dragas Center for Economic Analysis and Policy, Old Dominion University. *Williamsburg market includes City of Williamsburg and James City County.

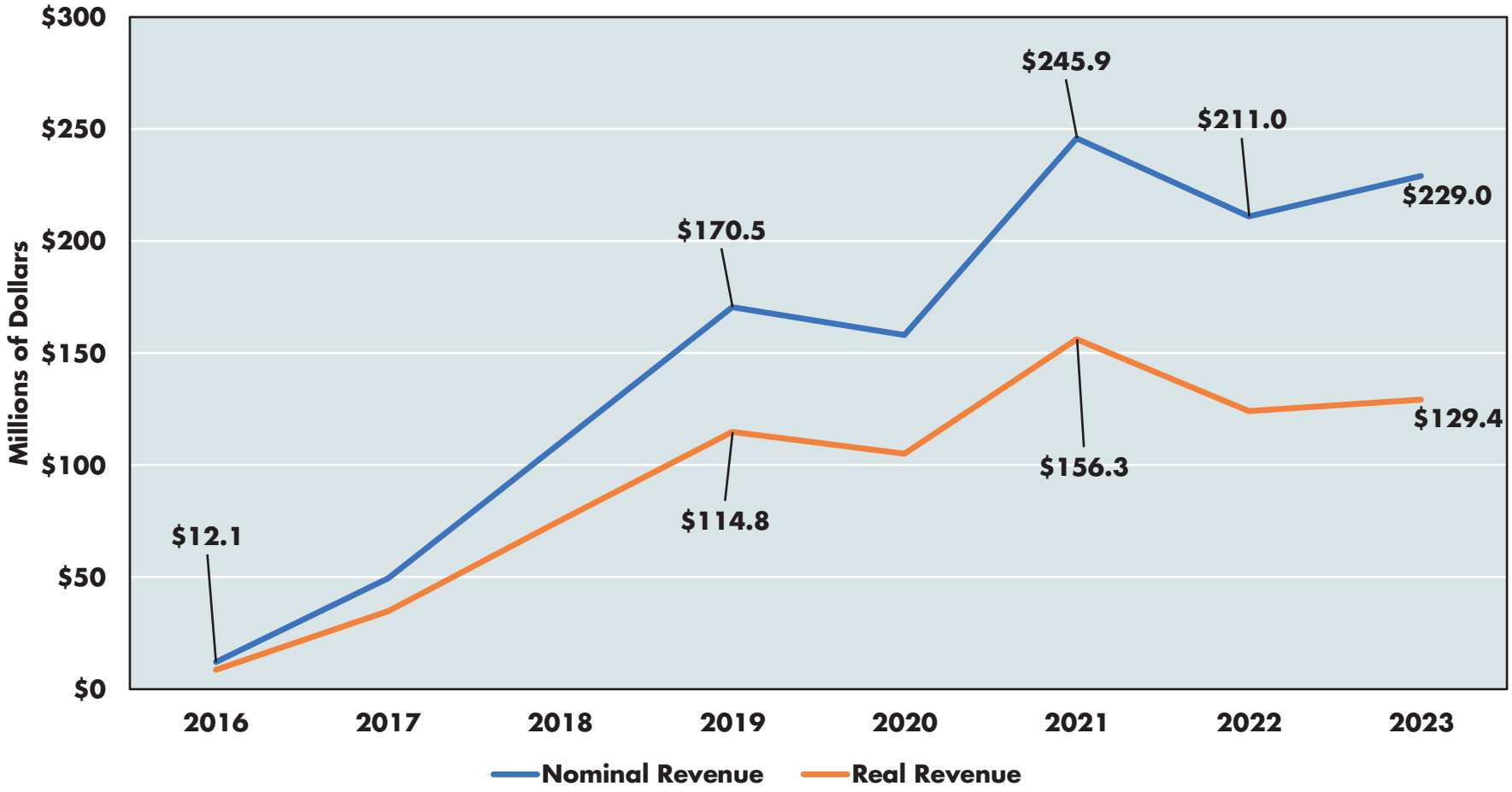
One potential constraint on the hotel industry has been the rise of the short-term rental industry. Graph 19 displays nominal and real Airbnb and Vrbo revenues for Hampton Roads from 2016 to 2023. In 2016, nominal revenues were approximately $12.1 million, climbing to $170.5 million in 2019 and to $245.9 million in 2021. Nominal revenues, however, dipped to $211.0 million in 2022 before recovering to $229.0 million in 2023.

However, the rise (and fall) of short-term rental nominal revenues may be misleading since it does not account for inflation. Real revenues in 2000 dollars increased by nearly 300% from 2016 to 2017, about 117% in 2018, and then around 52% in 2019. In 2020, not surprisingly, real revenues declined by 8% before jumping 49% in 2021. Real revenues then declined by 21% in 2022 and enjoyed a modest recovery of 4% in 2023. Nominal and real revenues in 2023 were below the peak observed in 2021. Almost all the rentals since 2018 (more than 93%) have been from whole-house rentals.

The question is whether we have seen 'peak Airbnb' and 'peak Vrbo.' As the rental price of short-term lodgings has neared (if not passed) traditional hotels, the open question is what is the advantage of short-term rentals, especially if you have to pay a cleaning fee and clean the property before departure? Perhaps there is an equilibrium that is emerging, where short-term rentals and traditional hotels operate in somewhat peaceful co-existence. Time will tell.

## GRAPH 19

## NOMINAL AND REAL AIRBNB AND VRBO REVENUES
## HAMPTON ROADS, 2016 - 2023




Source: AirDNA data received in March 2024, Bureau of labor Statistics, and the Dragas Center for Economic Policy and Analysis. AirDNA data excludes revenue from shared rooms.

# Final Thoughts

The pillars of the economy in Hampton Roads have fared well since the onset of the COVID-19 pandemic in 2020. Defense spending in the region continued to increase and will likely rise in 2024 and 2025. Increasing levels of spending will fuel regional economic growth, yet the question remains: how long can this last? Increasing deficits and debt will, at some point, become due, and we must work to diversify the economy before the proverbial butcher's bill arrives.

For the Port of Virginia, the story is one of relative competitiveness and performance. While cargo traffic decreased in 2023 compared to 2022, it decreased more significantly for many other major ports across the United States. It appears the declines were primarily concentrated among empty TEUs and loaded inbound TEUs. Given the economic slowdown in many destinations serviced by the Port of Virginia, the fact that it has grown the outbound loaded TEUs should be a point of emphasis and celebration. As we have noted in previous reports and stated here again, increasing investments in the Port infrastructure as well as the regional transportation infrastructure are a smart bet that is likely to pay significant dividends for the Port and the economy as a whole.

The hotel industry in Hampton Roads has performed well, especially when compared to the industry in Virginia and across the United States. Occupancy rates were lower in 2023 than 2022 and real revenues declined slightly in 2023. However, when compared to pre-pandemic peaks, the hotel industry remains larger in 2023 than in 2019. While short-term rentals grew significantly during pre-pandemic, this growth appears to have moderated remarkedly in 2022 and 2023. The conditions are right for 2024 to be a growth year for the hotel industry.

As we prepare to enter 2025, the pillars of the Hampton Roads economy remain strong. We can build upon these pillars to spur growth in the key industry clusters to diversify the economy of the region and to bolster private sector job growth. Doing so will require investments in the Port, improving transportation in and around the region, and addressing challenges related to workforce housing. These are not easy tasks, but if every journey begins with a first step, now is the time to start moving forward.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