Hampton Roads Economic Monthly

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Rental Prices in Hampton Roads — Where Do They Stack Up?

Since the onset of the COVID-19 pandemic, headlines have shown rents to be falling in most major cities like New York and San Francisco. Several factors are likely at play. Crowded cities may feel unsafe for some residents who can now live remotely and work away from the office. And with many amenities closed, high rental costs may no longer be justified. But what does the data say about rental prices here in Hampton Roads? Zillow, a leading online real estate marketplace, has established a new measure of rental appreciation called the **Zillow Observed Rent Index (ZORI).** This indicator measures changes in rental prices, controlling for changes in the quality of the available rental stock.

The data collected confirmed the headlines – since the beginning of 2020, rental prices in big cities showed large declines, with New York City experiencing the most drastic percent year-over-year change. As depicted in Figure 1, seven of the largest cities and the U.S. saw either negative year-over-year growth in rental prices or a sharp decline in growth rates after a few years of steady increases. By comparison, Richmond is experiencing a very slight decrease in year-over-year growth, and Hampton Roads is showing a steady *increase* in the rental index, with October 2020 rents 3.56% over October 2019.

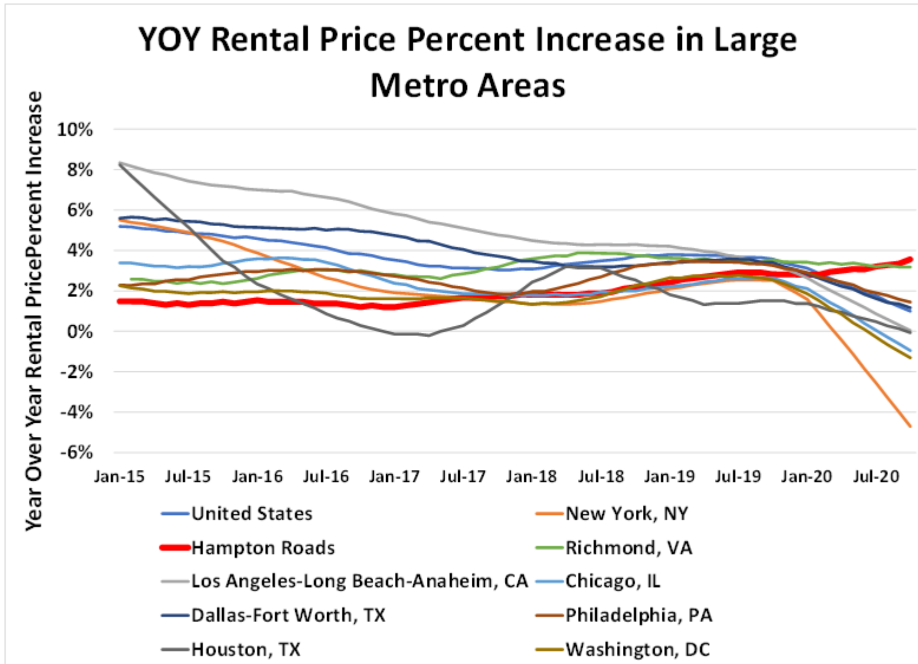


Figure 1: YOY Rental Price Percent Increase in Large Metro Areas. Source: Zillow, HRPDC.

It's one thing to compare rents in Hampton Roads to those in New York City, but how do they compare to other similar-sized MSAs? In Figure 2, the Virginia Beach MSA rental indexes are compared to reference metro areas between one and four million residents. In most of these sample metro areas, the rental index has been increasing year-over-year since the start of 2020, with Memphis, TN showing a nearly 8% increase in rents from the previous October. Austin, TX and San Jose, CA are the only metro areas showing a negative growth rate in year-over-year rents, with Hampton Roads sitting in the middle with regards to growth in similar sized metro areas.

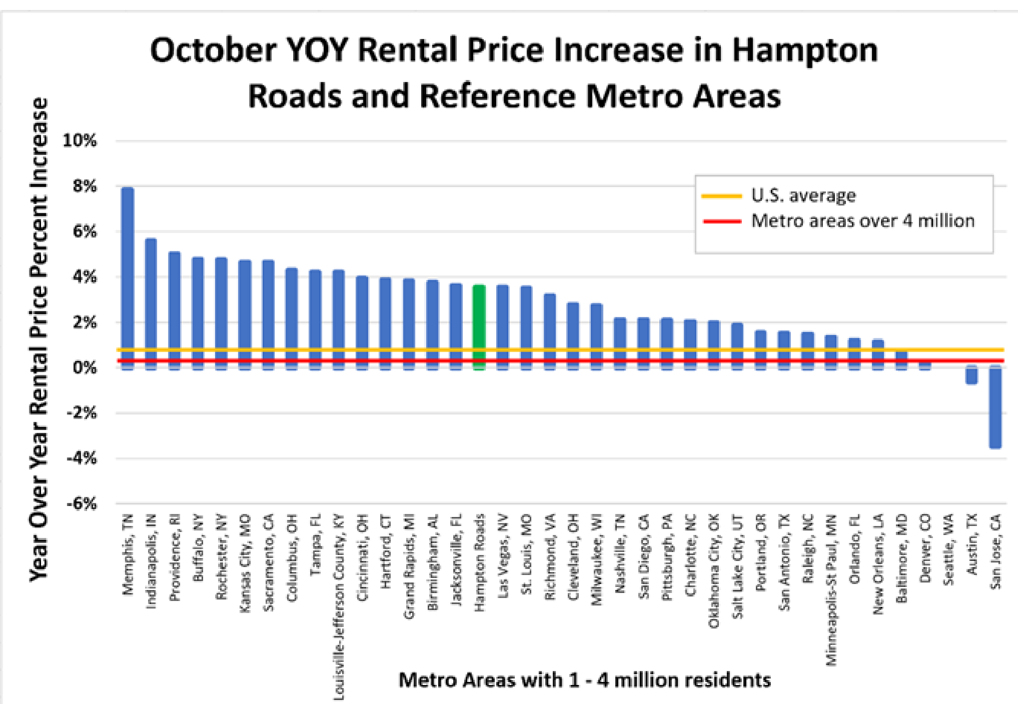


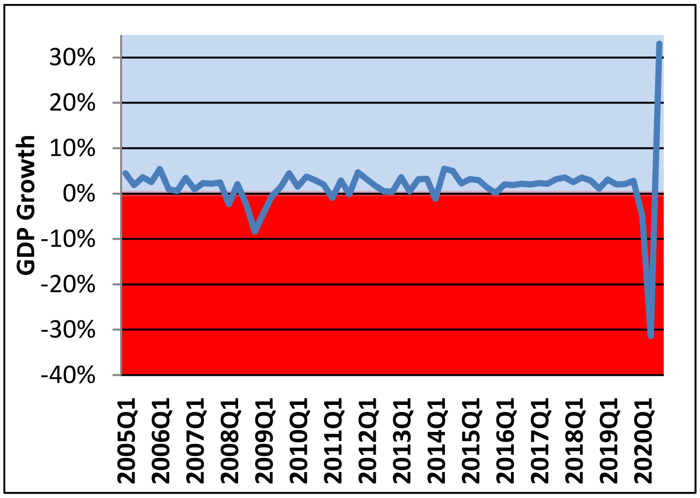
Figure 2: October YOY Rental Price Percent Increase in Metro Areas with 1-4 million residents. Source: Zillow, HRPDC.

When competition for tenants heats up, landlords will offer concessions to make their property more attractive. In October of 2020, the share of listings with concessions in Hampton Roads was 17%, relatively unchanged from January's rate of 18%, signaling that landlords do not currently need to offer incentives to attract new renters. For comparison, the share of rentals in San Francisco offering concessions in October 2020 was 42%, up from 16% in February.

As we wrote about a few months ago, home sales and prices in Hampton Roads are elevated compared to previous years, and this data shows rental prices in the region are climbing in a similar fashion. However, as the pandemic continues to affect daily life and the unemployment rates sit at record highs, affordability, foreclosures, and evictions will become indicators to watch closely.

GDP, Annualized Growth Rate

United States, 2005Q1 – 2020Q3, Quarterly

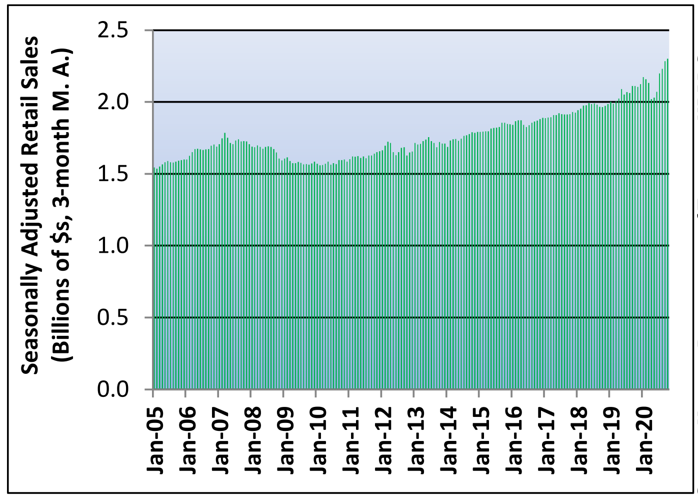


Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased 33.1% in Q3 2020, reflecting the impact of widespread re-openings of businesses closed down due to COVID-19 in the summer months. As depicted above, this unprecedented increase is the largest on record, directly following the largest contraction on record. As the virus continues to spread yet again, the potential for a quick, V-shaped economic recovery hangs in the balance.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Oct 2020, Monthly

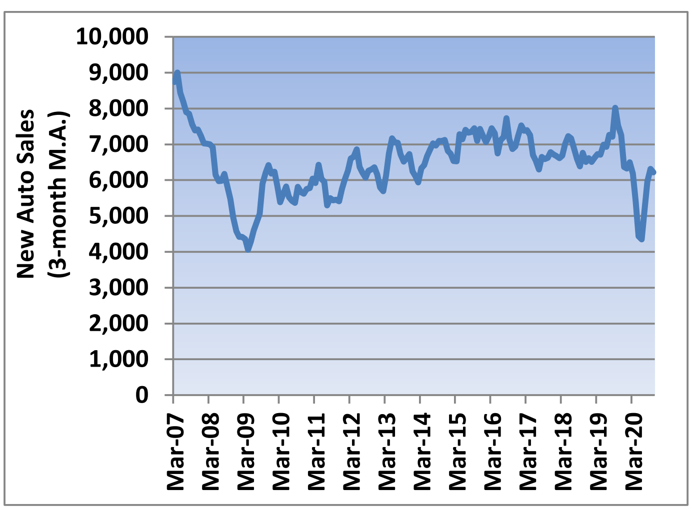


Source: Virginia Department of Taxation, HRPDC

Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Retail sales for the past several months have been very strong, posting double digit year-over-year increases for September and October 2020. When smoothed and averaged over 3 months, October represents the largest total retail sales recorded, confirmation of pent-up demand after re-opening much of the Hampton Roads retail economy in the late summer months.

New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – Oct 2020, Monthly

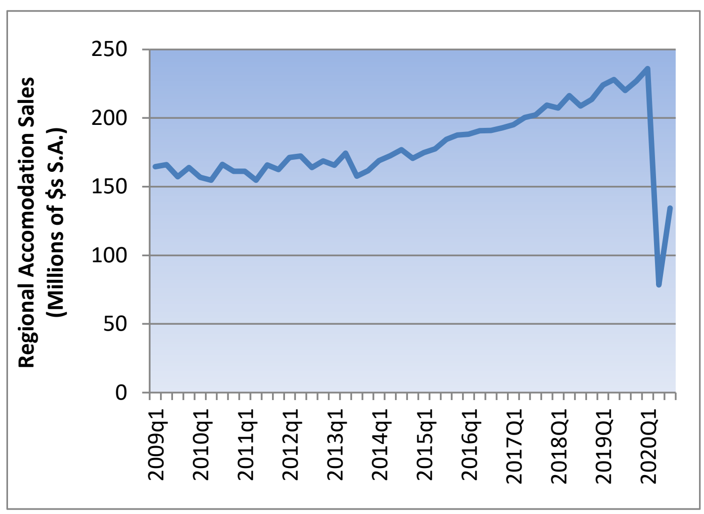


Source: Virginia Automobile Dealers Association, HRPDC

New Car Sales: Car sales, as a durable good, may be put off until an individual's economic prospects improve; thus, the number of new car sales indicates the level of confidence that households in Hampton Roads have in their financial future. Car sales this October were down slightly compared to the previous month, with year-over-year growth 7% lower than October 2019. The steady month-over-month improvement is continuing to increase the 3-month average out of record lows.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2020Q3, Quarterly

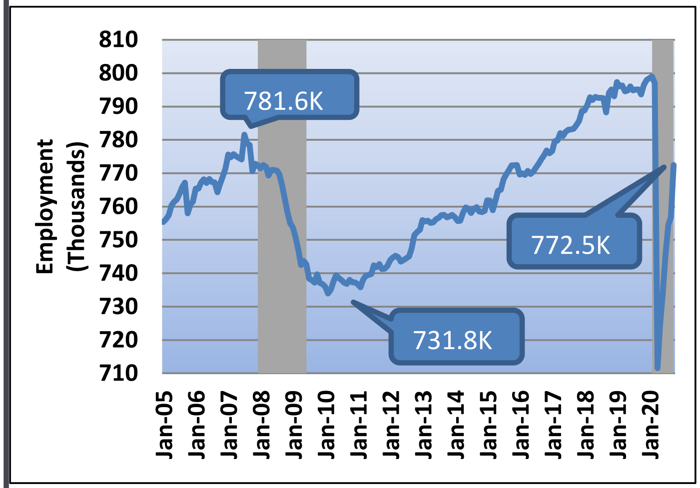


Source: Virginia Department of Taxation, HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q3 2020 hotel revenue saw improvement from the historic lows realized in Q2 due to pandemic-related closures. While there was a 71% increase in revenue from Q2 to Q3, this still represents a nearly 40% decline in year-over-year revenue.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2020, Monthly

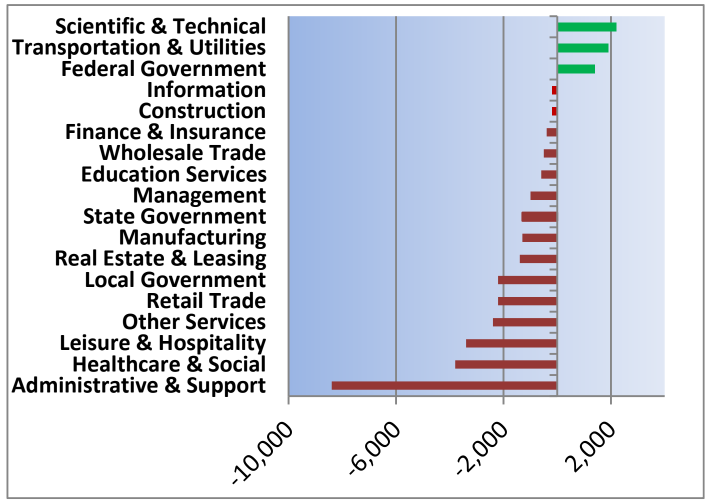


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment increased by over 2% from September to October 2020. This data represents a contrast to the state, which saw a 0.88% increase, and the country's 0.43% increase in the same time period. Recent growth suggests that Hampton Roads may be out-pacing the sluggish recovery experienced across the nation.

Employment Growth by Industry

Hampton Roads, Oct-19 to Oct-20, Year-over-Year

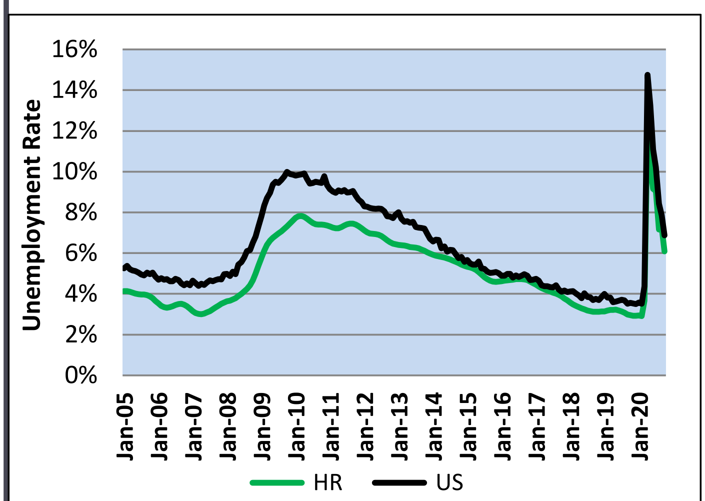


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In October, almost every Hampton Roads industry experienced a decrease in year-over-year employment. Most significant was Administrative & Support, which continued to show an especially large decrease of over 8,000 employees. The Healthcare industry lost nearly 3,800 jobs compared to last year, while Leisure & Hospitality and Retail Trade lost 3,400 and 2,200 jobs each in October.

Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Oct 2020, Monthly

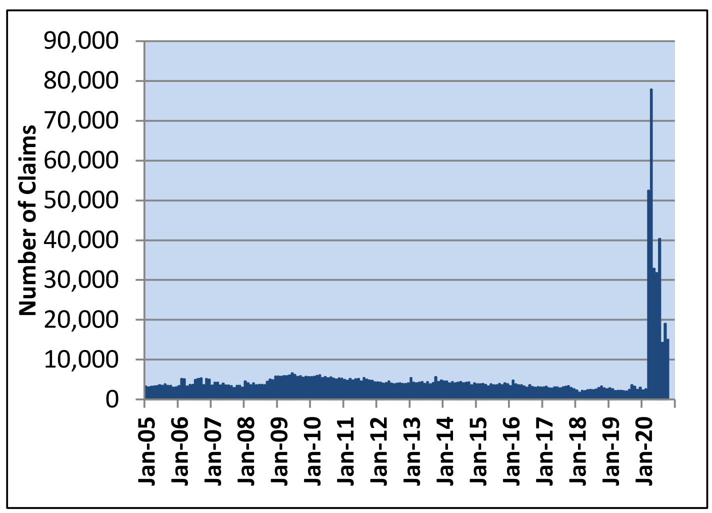


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased from 7.25% in September to 6.09% in October, reflecting a decline in the number of unemployed residents coupled with an increase in the region's labor force due to a surge in employment. The national labor force also realized growth, while the nation's unemployment rate dropped from 7.86% in September to 6.88% in October.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2020, Monthly

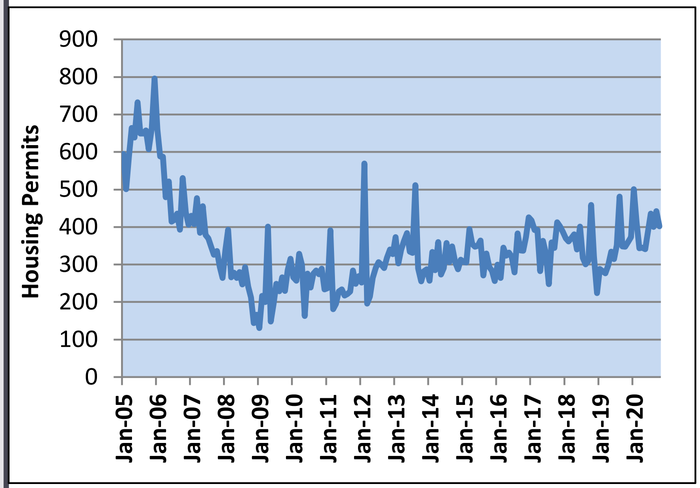


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. Seasonally adjusted unemployment claims in October 2020 were over 15,000 a 21% decrease from the previous month—however unadjusted claims represented only 51 fewer claims from September to October. Continued unemployment claims are declining as well, hovering just under 16,000 at the end of November.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2020, Monthly

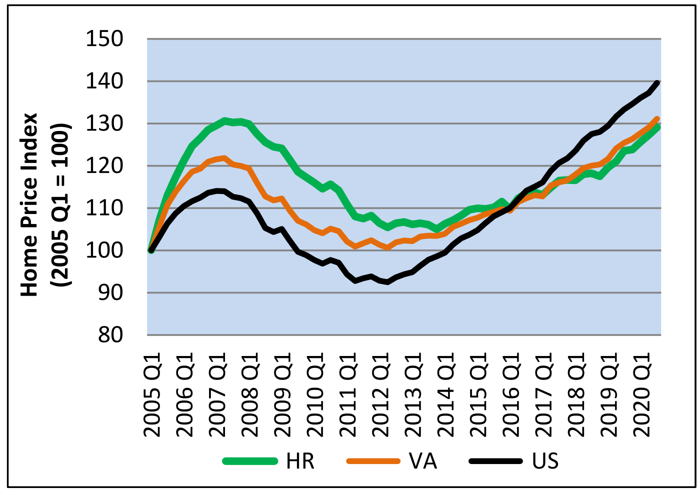


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes in October 2020 decreased to 353. When seasonally adjusted, the data shows a significant increase from October 2019. As the market continues to respond to COVID-19, this indicator will be watched closely.

Home Price Index, All Transactions

Hampton Roads, 2005Q1 – 2020Q3 Quarterly

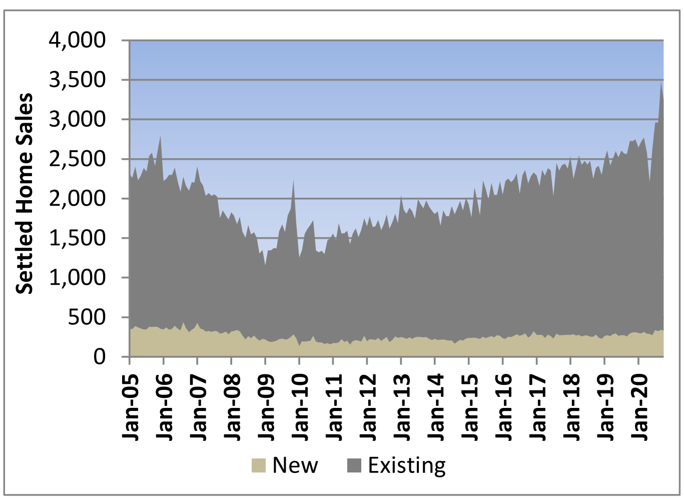


Source: Federal Housing Finance Agency, HRPDC

Home Price Index: The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' home prices increased, yet again, by 4.5% over the previous year in Q3 2020, on par with both the state and the nation. Regional housing values remain slightly more than 1% below those experienced during the peak of the housing boom, but that gap continues to shrink rapidly.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2020, Monthly

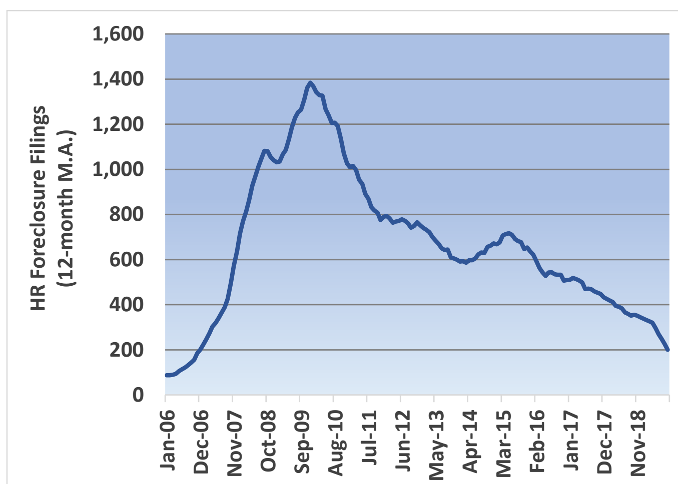


Source: REIN, HRPDC

Home Sales: Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, the levels of existing home and total settled sales in October were very strong, the second-highest recorded since 2005. New construction sales in October were slightly lower than the record high of July, but are elevated above October 2019. New construction sales for October represented roughly 10% of all sales.

Foreclosure Filings

Hampton Roads, Jan 2005 – Sep 2020 Monthly



Source: ATTOM, HRPDC

Foreclosures: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Zillow recently stopped providing data on distressed sales as a percentage of total sales in the region, so HRPDC has shifted to reporting on total monthly foreclosure filings in Hampton Roads. Total foreclosures in recent months have experienced a steep decline, likely due to the moratorium in Virginia.