Section VII

Hampton Roads Real Estate

Figure 7.1 Building Permits in Hampton Roads....73

Figure 7.2 Value of Building Permits in Hampton Roads....73

Figure 7.3 Per Unit Value of Single Family Building Permits in Hampton Roads....74

Figure 7.4 Pre-Owned and New Construction Home Sales in Hampton Roads....74

Figure 7.5 Homeownership Rates in Hampton Roads....75

Figure 7.6 Construction Employment in Hampton Roads....75

Figure 7.7 Housing Price Index in Hampton Roads, Virginia, and the U.S....76

Figure 7.8 Housing Price Index in Hampton Roads and Reference Metropolitan Areas....76

Figure 7.9 Housing Opportunity Index....77

Figure 7.10 30-Year Conventional Mortgage Rates....77

Figure 7.11 Gross Leasable Retail Space in Hampton Roads....78

Figure 7.12 Hampton Roads Industrial Market Vacancy Rate....78

Real Estate in Hampton Roads

Real estate plays a vital role in the economy and constitutes where people in Hampton Roads live, work, shop, and stay. Hampton Roads real estate has remained in a fragile state since the onset of the Great Recession in 2007. Residential home building hit its peak in 2005, but construction employment has since declined by 15,400 positions through 2014 and has only increased slightly since that time. The number of building permits issued fell from more than 11,000 in 2005 to a low of 3,966 in 2010, and 6,182 were issued in 2017. The average value of single family permits decreased by 10.5% between 2005 and 2014, before increasing to a new high in 2016 (inflation-adjusted).

Homeownership has declined from its peak in 2004, resulting from increasing home prices and debt, which have made purchasing a home unaffordable. During the Great Recession, the decline in home prices made housing more affordable, which meant a family who earned the region's median income could afford 75.5% of homes sold in the second quarter of 2018. The period of exceptionally low mortgage rates has drawn to a close, and as interest rates increase, affordability has continued to diminish despite weak home price appreciation. However, reports indicate stricter credit standards put in place after the onset of the financial crisis have made it difficult for some perspective buyers to gain access to credit.

One result of the housing correction and lower rate of homeownership has been growth in multifamily construction, as builders take advantage of higher rents relative to the cost of homeownership.

While the vacancy rate of retail space has not increased significantly across the region, it is important to note that all real estate is local, so trends across the region will not necessarily manifest themselves in individual pockets of Hampton Roads. The industrial market vacancy rate remains elevated, despite little growth in industrial square footage over the past five years.

While there has been some recovery in construction, general weakness in the Hampton Roads labor market suggests the housing market will not experience the rapid home price appreciations that have occurred in some of Hampton Roads' reference MSAs. The Hampton Roads housing market is expected to continue its long, slow recovery.

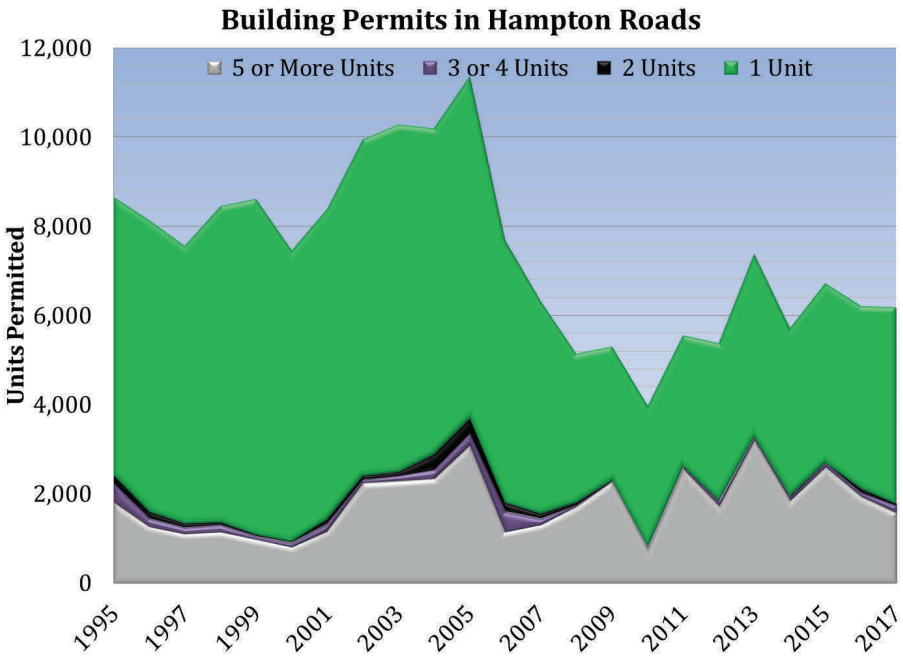
Figure 7.1 Building Permits in Hampton Roads

Why is it important?

Building permit information reflects on the general well-being of the residential construction industry. Large increases or decreases in the number of building permits have both social and economic implications.

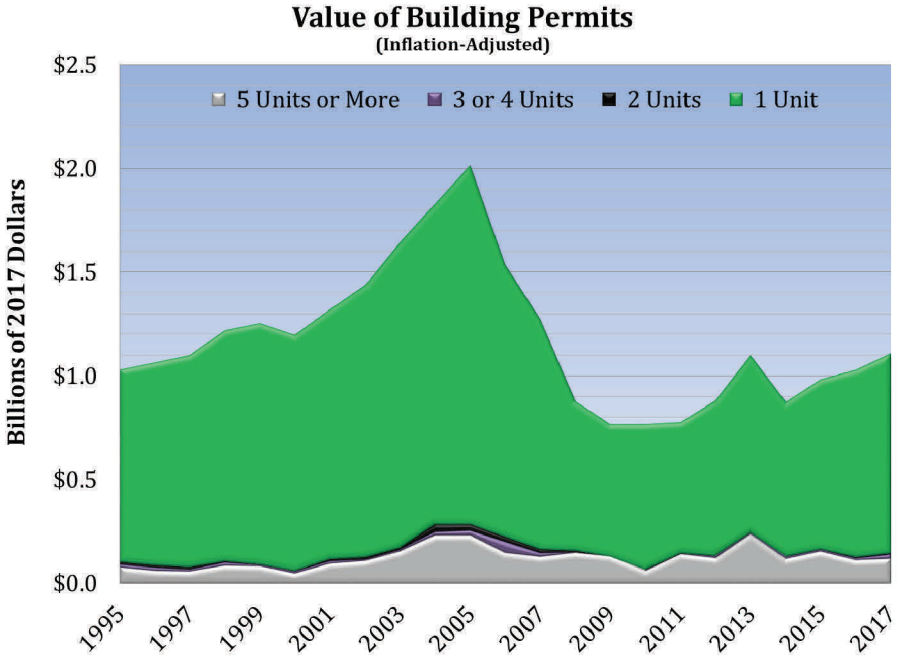
How are we doing?

Building permits declined rapidly on the eve of the Great Recession as builders quickly reacted to the looming housing correction. Permits fell to under 6,182 in 2017. Single family homes typically comprise greater than 75% of all permits issued, and represented 71% in 2017, increasing from 66% of permits in 2016.



Source: U.S. Census Bureau, HRPDC

Figure 7.2 Value of Building Permits in Hampton Roads



Source: U.S. Census Bureau, HRPDC

Why is it important?

The value of building permits is an excellent indicator of residential construction activity. Both the number and the value of building permits reflect the demand for housing in relation to the price of housing.

How are we doing?

The value of housing permits issued has increased since the housing correction, indicating a level of recovery to the overall housing market. It is important to note recovery will likely not achieve the levels seen during the housing boom.

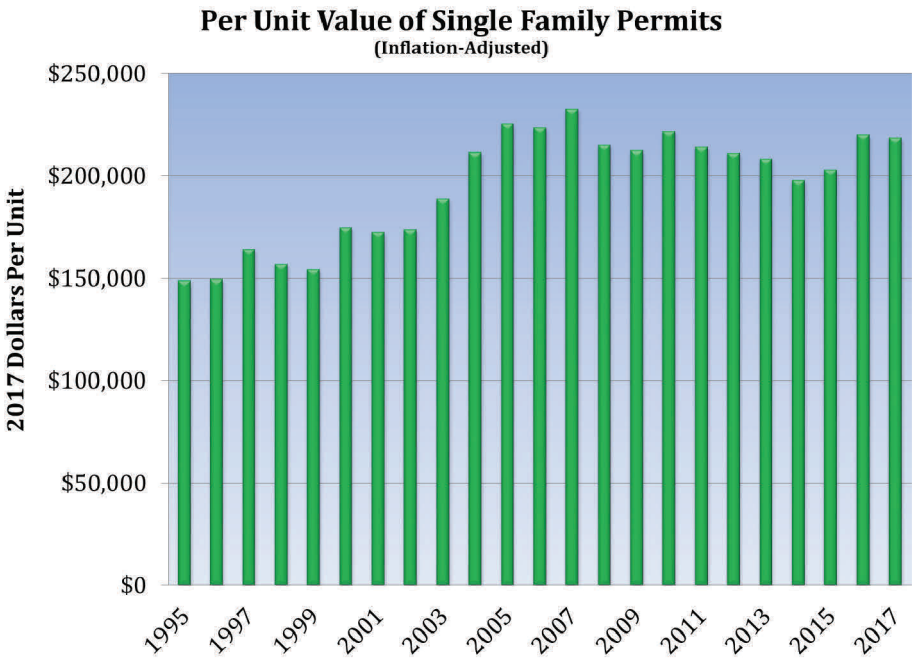
Figure 7.3 Per Unit Value of Single Family Building Permits in Hampton Roads

Why is it important?

The size and amenities of homes built in the region respond to numerous features, including economic factors, family size, and changing tastes. The cost of building new homes indicates at what price point the market has been operating.

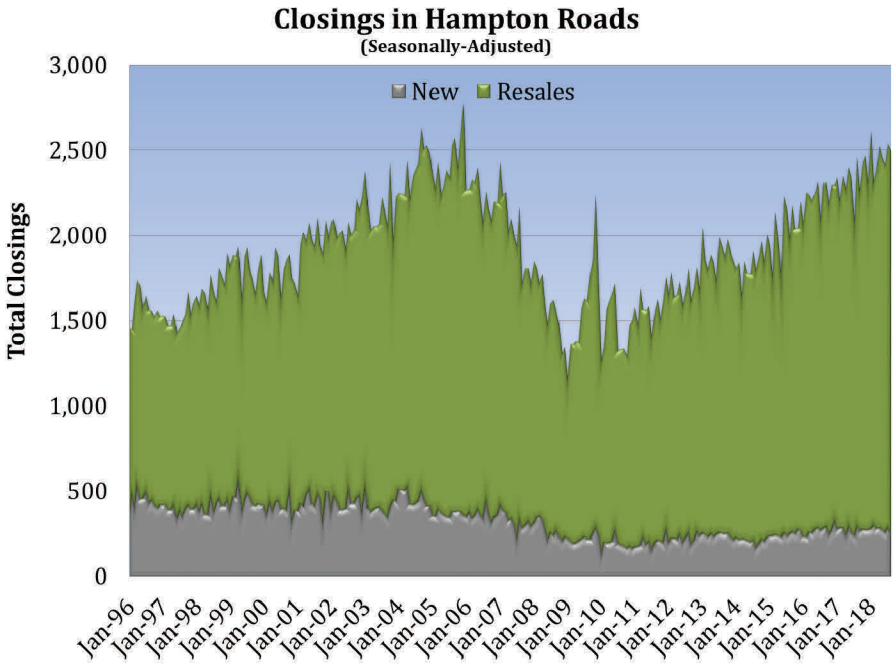
How are we doing?

Inflation-adjusted values peaked in 2007, before declining slightly through the Great Recession. After stabilizing around $200,000 for several years, the average value increased to roughly $220,000 the past few years. This indicates a shift where the construction market has focused new supply.



Source: U.S. Census Bureau, HRPDC

Figure 7.4 Pre-Owned and New Construction Home Sales in Hampton Roads



Source: Rose and Womble Residential Data Bank, HRPDC

Why is it important?

Regional home sales react to both local and national market pressures. Large increases in new construction sales often indicate increasing population, while increases in housing resales can be attributed to a variety of factors, including economic growth.

How are we doing?

Closings in Hampton Roads contracted significantly during the Great Recession, with a brief spike related to the homebuyer tax credit. The number of transactions has increased consistently over the past few years, but with relatively lower levels of new construction sales.

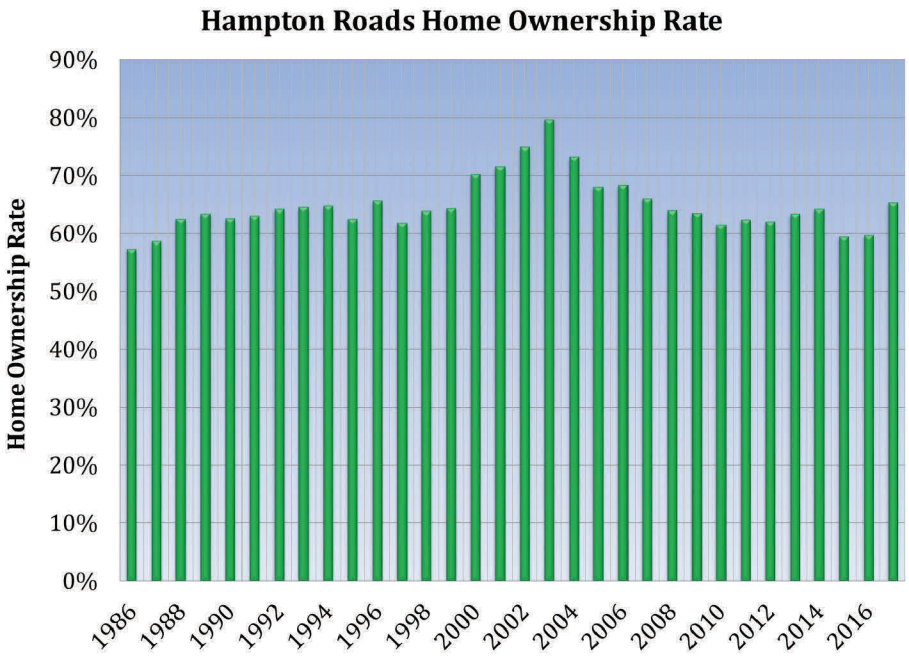
Figure 7.5 Homeownership Rates in Hampton Roads

Why is it important?

Homeownership was a stated policy goal of the two previous presidential administrations, and is often been considered part of the American Dream. Changes in the homeownership rate are driven by new household formation, as well as other demographics changes.

How are we doing?

Homeownership peaked in 2003, until rising home prices and debt started to slow down household formation. The census estimated that the homeownership rate increased to 65.3% in 2017, after lagging under 60% the past two years. Currently, it is difficult to evaluate the accuracy of this data.



Source: U.S. Census Bureau, HRPDC

Figure 7.6 Construction Employment in Hampton Roads

Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Construction employment serves as another measure of the construction industry, and the industry provides employment opportunities for individuals who decided to forego high levels of education.

How are we doing?

Construction employment declined significantly during the housing correction and has yet to return to the levels seen through the 2000s.

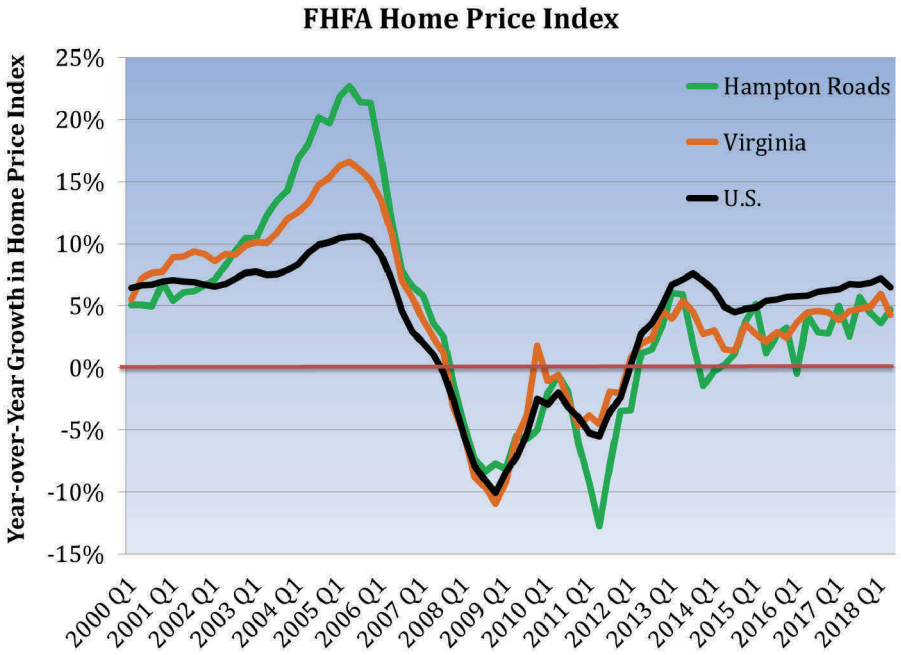
Figure 7.7 Housing Price Index in Hampton Roads, Virginia, and the U.S.

Why is it important?

The FHFA Home Price Index (HPI) measures repeated sales of homes to capture the true increase in the cost of housing. Rising home values serve as an asset to families and represent a rising cost of living for workers.

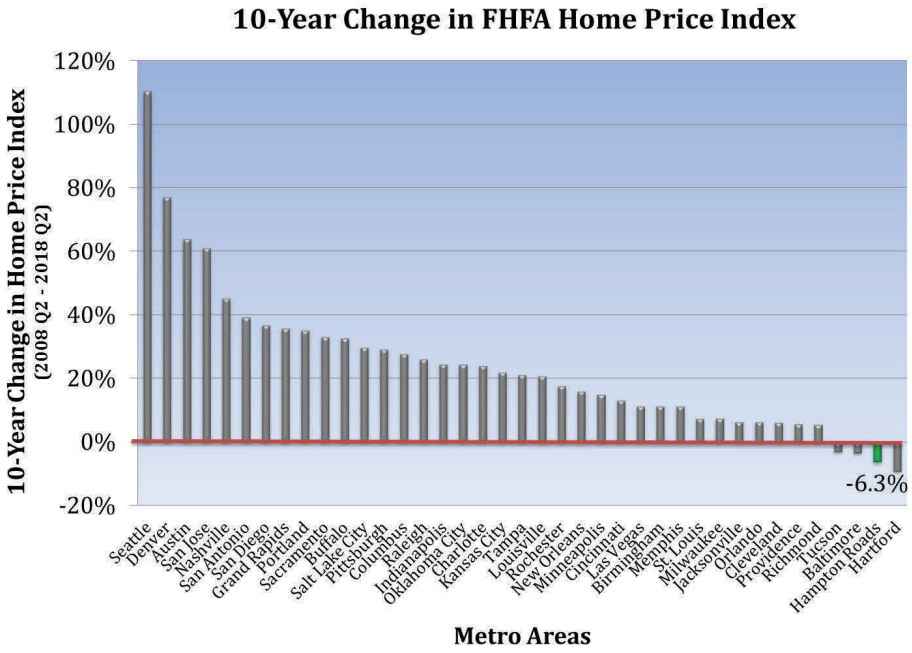
How are we doing?

The HPI in Hampton Roads experienced a similar decline to that of the nation and the Commonwealth from 2007 to 2009, although its decline in 2011 was significantly worse. In recent years this measure has been very erratic.



Source: Federal Housing Finance Agency, HRPDC

Figure 7.8 Housing Price Index in Hampton Roads and Reference Metropolitan Areas



Source: Federal Housing Finance Agency, HRPDC

Why is it important?

Housing is a major component of the cost of living, affecting how the Hampton Roads region can compete for employment with other metro areas. Also, real property taxes are an important part of local government finances, and changes in home values can impact the level of services a locality can provide.

How are we doing?

Hampton Roads home prices have declined by 6.3% from 2008 levels, showing weakness in Hampton Roads housing. Some of this can be explained by the large increase in regional home prices as seen in Figure 7.7.

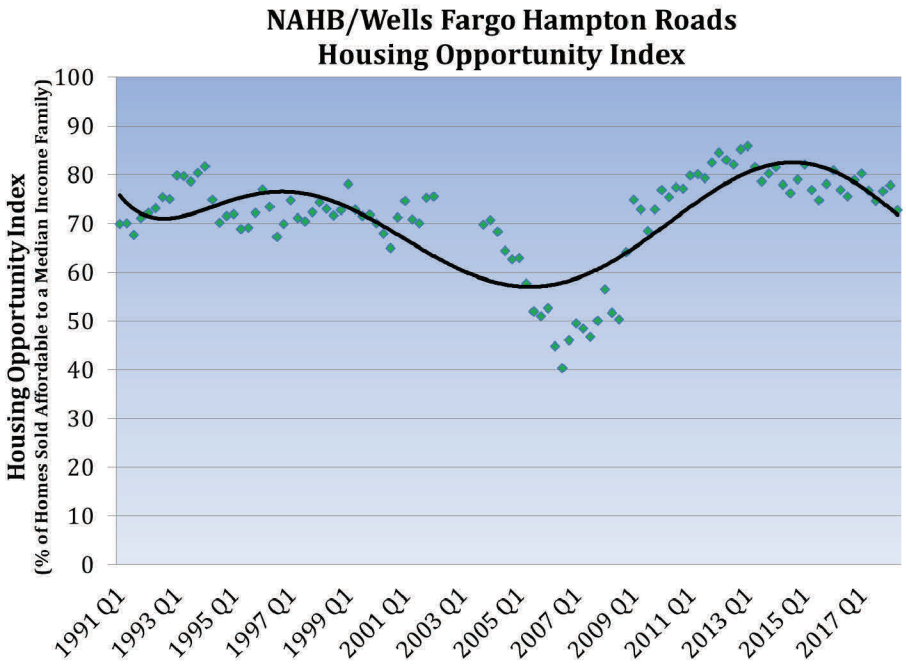
Figure 7.9 Housing Opportunity Index

Why is it important?

The ability to purchase housing improves the quality of life by offering individuals the opportunity to take advantage of the benefits associated with homeownership. This index estimates the percentage of homes sold that are affordable to a family earning the region's median income.

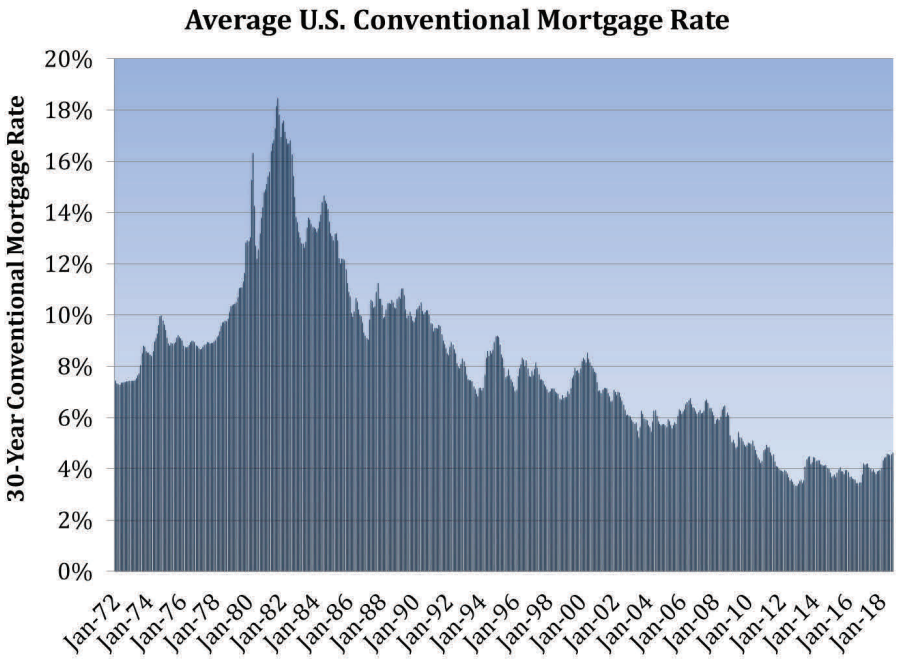
How are we doing?

Housing affordability increased in Hampton Roads as a result of lower home prices andinterest rates, as well as steady growth in median incomes. More recently, affordability started declining according to this measure.



Source: National Association of Home Builders, Wells Fargo, HRPDC

Figure 7.10 30-Year Conventional Mortgage Rates



Source: Freddie Mac, HRPDC

Why is it important?

National mortgage rates influence local mortgage rates and the overall affordability of the housing market. Continued low rates allow the market to continue to improve, but any major increase in mortgage rates could greatly impact the housing market.

How are we doing?

Mortgage rates have decreased as a result of lower demand for loans and accommodative monetary policy after the recession. As the Federal Reserve raises interest rates, higher mortgage rates may impact affordability.

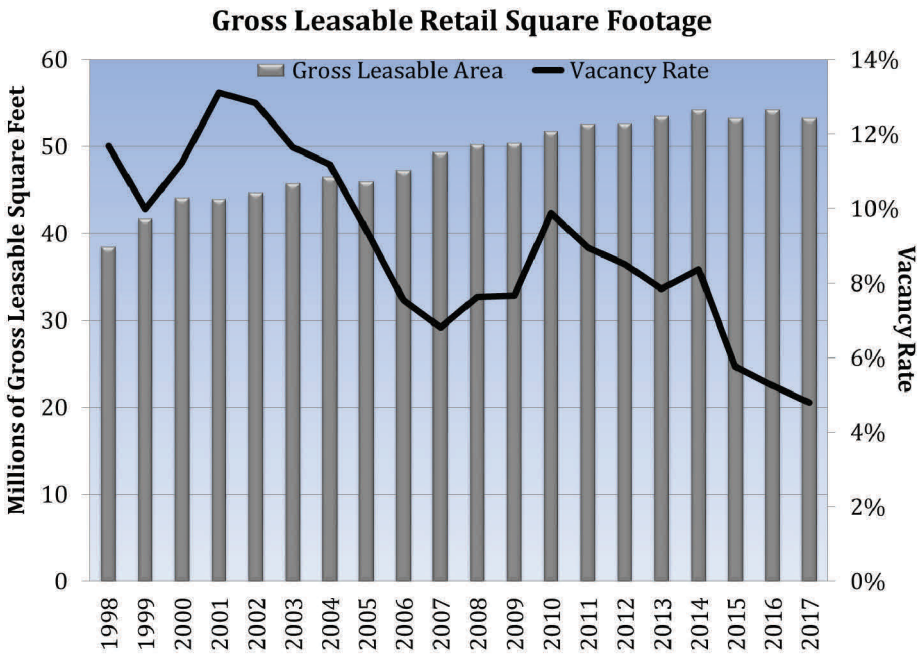
Figure 7.11 Gross Leasable Retail Space in Hampton Roads

Why is it important?

The availability of retail space reflects market conditions, speculation, and access to real estate.

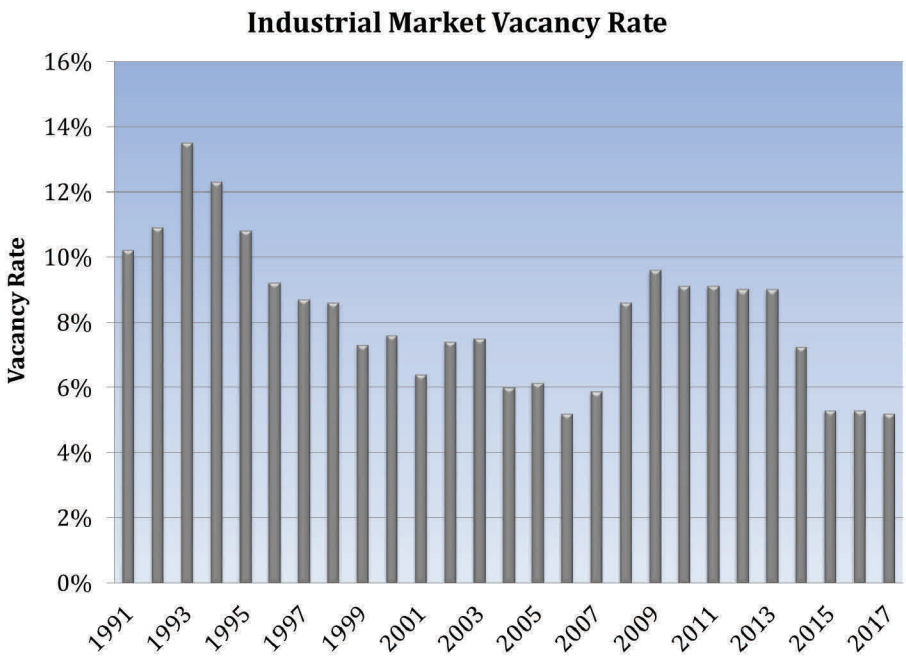
How are we doing?

Hampton Roads has continued to add retail square footage and has maintained a lower vacancy rate for that retail footage than it saw during the late 1990s and early 2000s.



Source: Old Dominion University Center for Real Estate and Economic Development, HRPDC

Figure 7.12 Hampton Roads Industrial Market Vacancy Rate



Source: Old Dominion University Center for Real Estate and Economic Development, HRPDC

Why is it important?

The industrial market vacancy rate signals the availability of industrial space for area employers. Sudden changes in the vacancy rate can indicate the arrival or departure of a major employer. Sustained changes are indicative of trends in the industrial market place.

How are we doing?

The vacancy rate spiked during the recession, and while it is has declined from its peak in 2009, it remains elevated above normal levels.