

Economic Opportunity Breezes into Hampton Roads

Almost 30 years ago, the world's first offshore wind turbine was installed in Denmark. It has since been decommissioned after 25 years of useful life, around the time the offshore wind industry has begun to take off in the United States. The first offshore wind turbines to be installed in US federal waters are expected to be completed this year, **located in Hampton Roads** – 27 miles off the coast of Virginia Beach. As the industry prepares to launch right here in our region, what are some of the trends we've observed and what can they tell us about where this industry is heading?

Growing demand for renewable energy and sharply falling offshore wind prices are driving major investments by global energy companies. In fact, global investment in offshore wind energy is expected to total \$1 trillion over the next 20 years, which means the market potential for the East Coast pipeline is vast. In the past two years, the majority of states on the eastern seaboard have made specific commitments on how much energy will be produced via offshore wind, as well as what percentage of energy to produce from renewable sources (Renewable Portfolio Standards, or RPS).

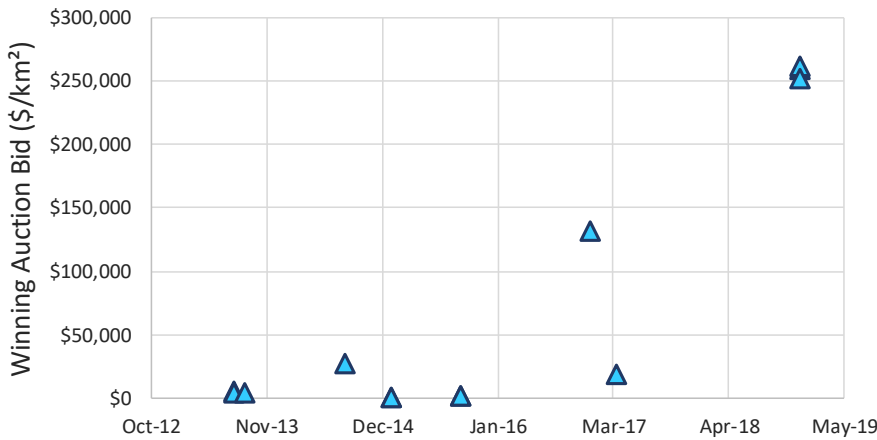
But before any building actually happens, the federal offshore wind lease areas must be auctioned off to a developer. From the first sale in 2013 through today, prices of the lease areas have been increasing (see Figure 2), signaling that investors are becoming increasingly confident about the viability of this industry as their willingness to pay for the rights to develop this space goes up. Additionally, the U.S. Energy Information Administration forecasts that the cost of power derived from offshore wind will decrease dramatically over time, adding to its viability as a sustainable source of power for customers.

Figure 1: Offshore Wind Targets/Goals

State	Targets/Goals	Year
Connecticut	2 GW installed by 2030	2019
Maryland	1.2 GW installed by 2030	2019
Massachusetts	3.2 GW installed by 2035	2018
New Jersey	3.5 GW installed by 2030	2018
New York	9 GW installed by 2035	2019
Rhode Island	1 GW clean energy installed by 2025	2019
Virginia	2 GW installed by 2030	2018

Source: U.S. Department of Energy, 2019

Figure 2: U.S. Offshore Wind Lease Sale Prices



Source: US Department of Energy, 2019

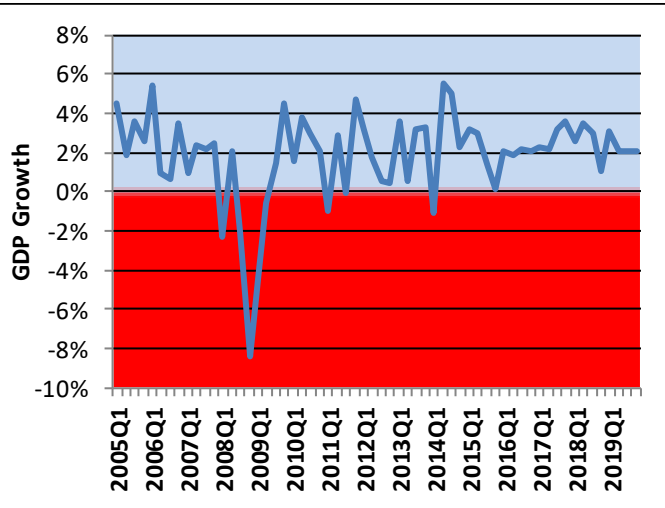
Since it's not economically sustainable to import the gigantic pieces of equipment needed to build this industry in the US, a supply chain must emerge on the East Coast. While the overall US market begins to shake out, **Virginia has emerged as a leader in attracting this emerging industry's supply chain.** Earlier this year, Governor Northam announced that Ørsted, a global leader in offshore wind, will lease a portion of the Portsmouth Marine Terminal for staging materials and equipment. The Governor has proposed the establishment of an Office of Offshore Wind, and his recent budget proposal includes plans for investing \$40 million for upgrades to PMT to ready it for this behemoth of an industry. Also, while the 2018 Virginia Energy Plan states a target of 2 GW of offshore wind capacity to be installed by 2030, legislation currently on the floor of the General Assembly could more than double that target. Finally, Dominion Energy and Avangrid Renewables are currently planning two of the nation's largest projects off Virginia's coast.

With its unmatched maritime assets, Hampton Roads has the incredible opportunity to become a central hub for offshore wind. The industry could create thousands of new jobs in Virginia, diversifying the regional economy while leading the way for renewables nationwide.

Developers know what the offshore wind industry needs, and Hampton Roads has it. Offshore wind needs our specialized maritime workforce, large and modern port facilities, unrestricted access to the open ocean, and our unique ability to locate suppliers, developers, and installation facilities together in one region. The market is signaling that offshore wind is a good investment, and we're excited that the Commonwealth is getting Hampton Roads ready to benefit greatly from its expansion.

GDP, Annualized Growth Rate

United States, 2005Q1 – 2019Q4, Quarterly

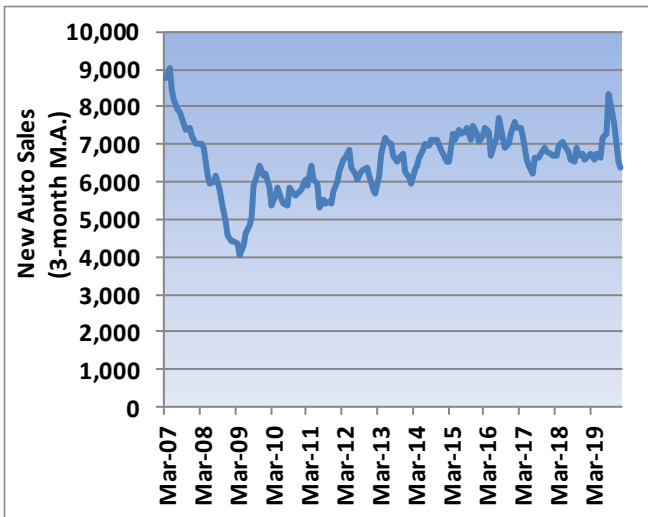


Source: Bureau of Economic Analysis, HRPDC

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 2.1% in Q4 2019 (GDP also grew by 2.1% in Q3 2019). The growth is driven in part by consumer spending, government spending, housing investment, and exports, while imports decreased. There was a decrease in inventory investment (-1.09%) as well as a reduction in business investment reflecting a decrease in structures and equipment.

New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – Jan 2020, Monthly

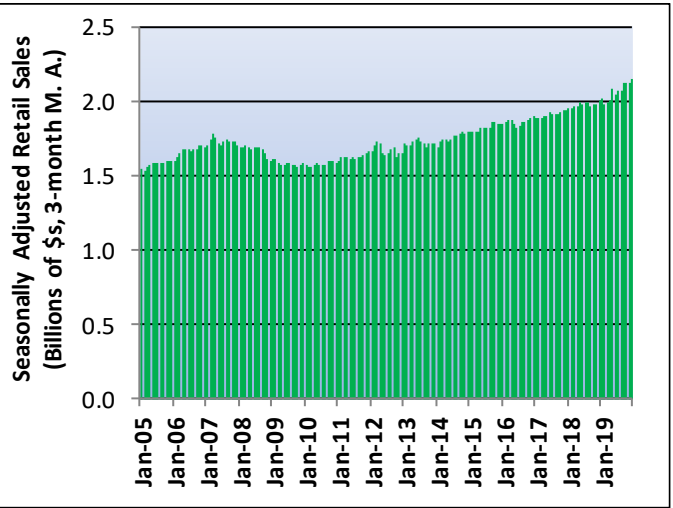


Source: Virginia Automobile Dealers Association, HRPDC

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 have decreased and stabilized after an unusually strong September, hovering near the averages that have been observed over the past few years.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Dec 2019, Monthly

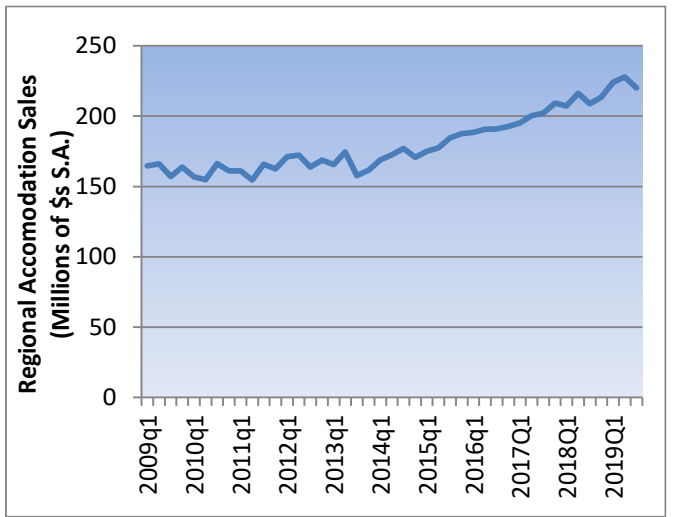


Source: Virginia Department of Taxation, HRPDC

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 have bounced around, but after a surprisingly weak June, they continue to recover handily through to December (seasonally adjusted 3 month M.A.). Sales increased by 7.4% in December, making it Hampton Roads’ best December for total retail sales in recent years. Much of the recent growth in retail sales across the Commonwealth has been the result of increases in the number of online sales that are subject to tax.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2019Q3, Quarterly

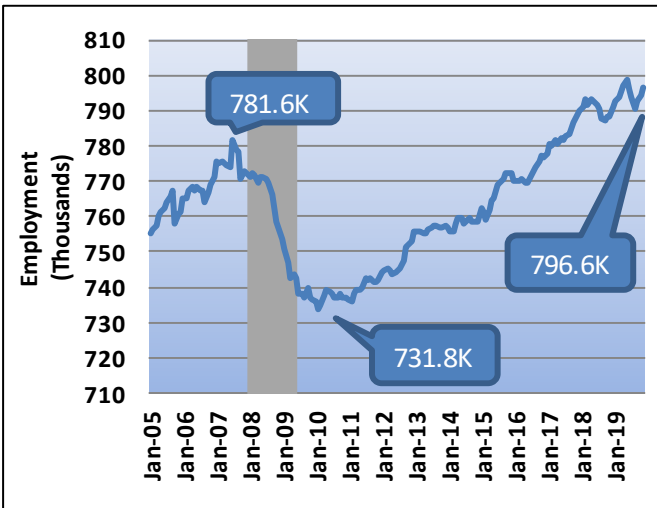


Source: Virginia Department of Taxation, HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region’s tourism sector. In Q3 2019, accommodation sales decreased by 3.5%, settling at \$220 billion for the quarter. This continues a pattern of slowing sales between second and third quarters in recent years, however, Q3 accommodation sales in 2019 increased 5.4% over Q3 2018. This shows accommodation sales are still trending upward from late-2013 lows.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2019, Monthly

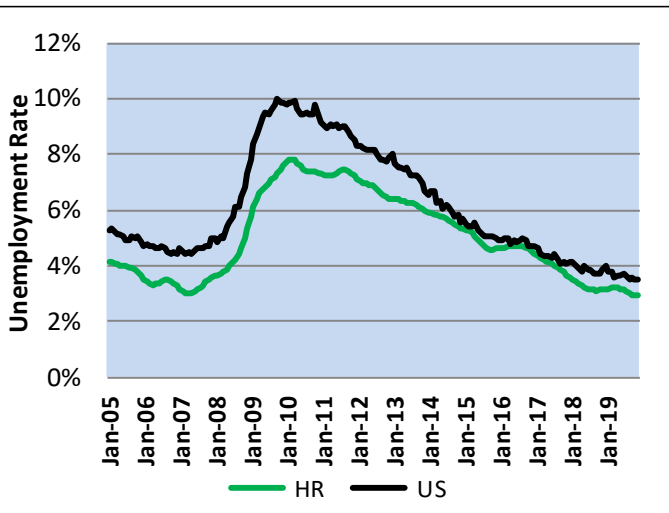


Source: Bureau of Labor Statistics, HRPDC

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 for the third month in a row since a recent high in June, to 796,600 positions in December of 2019. This figure represents a 1.05% growth from the same month in the previous year.

Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Dec 2019, Monthly

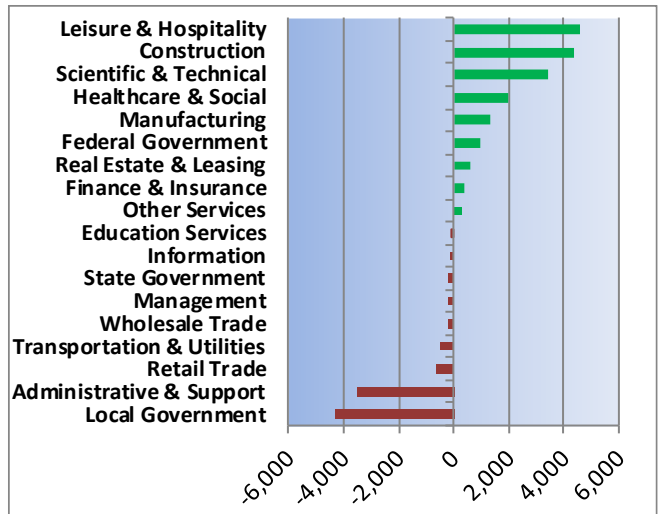


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate plateaued in December 2019 at 2.93%, the same rate it was in November. Comparatively, the national unemployment rate decreased again in December from the previous month to 3.5%, hovering at record lows.

Employment Growth by Industry

Hampton Roads, Dec 2018 – Dec 2019, Year-over-Year

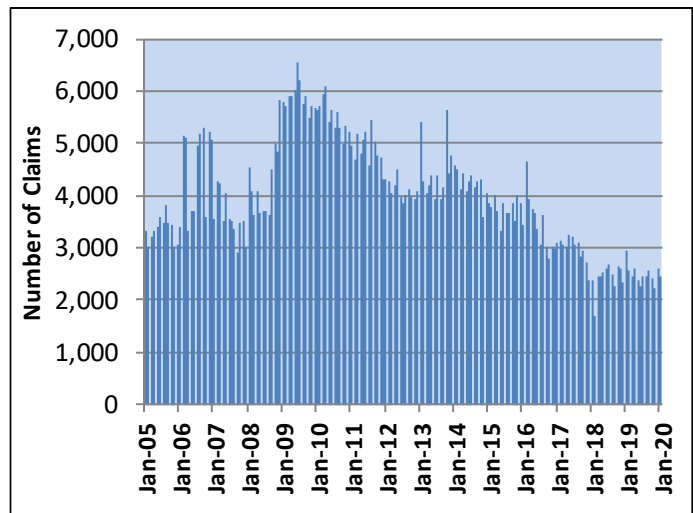


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Several industries have seen significant decline year-over-year using BLS data, including Administrative & Support and Local government. The Construction and Leisure & Hospitality industries continue to see the largest increases in jobs when compared to the previous year, signs of strength due to their key role in the regional economy.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jan 2020, Monthly

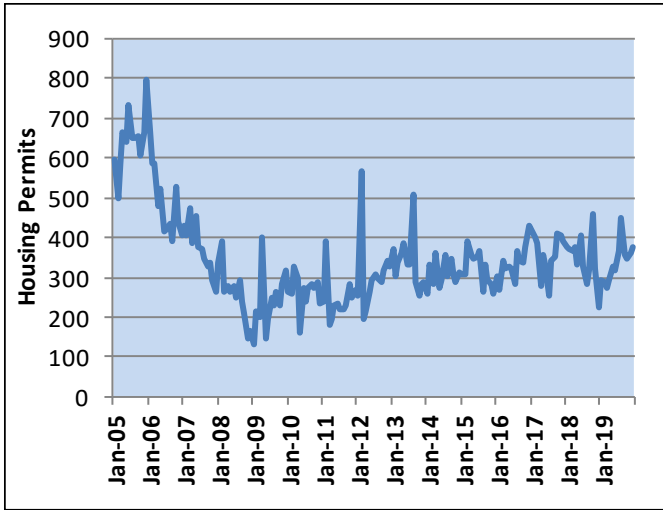


Source: Virginia Department of Labor, HRPDC

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. Seasonal adjusted unemployment claims decreased in January 2020 to 2,438 claims, a decrease from December of 2019 but still above November's recent low. This January number of claims represents a 17.6% decrease from the same month in 2018.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2019, Monthly

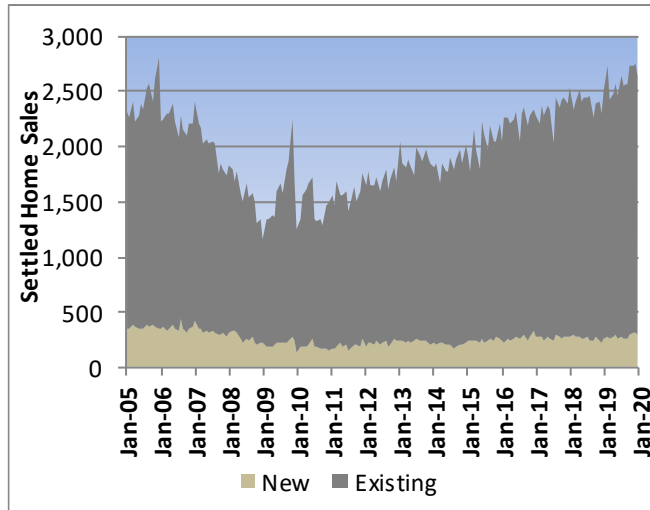


Source: U.S. Census Bureau, HRPDC

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 December decreased to 352 permits, but when seasonally adjusted represents a slight increase relative to November. As the market continues to respond to the recently lowered federal interest rates, this indicator will be interesting to watch closely.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jan 2020, Monthly

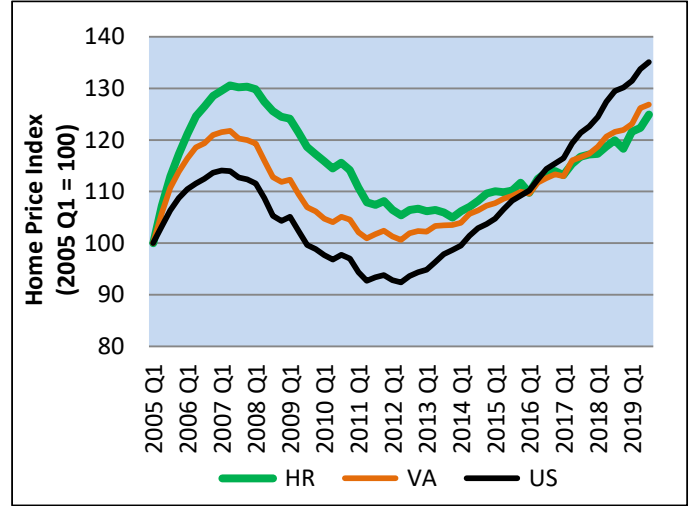


Source: REIN, HRPDC

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. The levels of existing home sales have been strong recently, with sales maintaining the same average level as during the housing boom in 2005. New construction sales in January saw a slight dip from December, continuing to represent roughly 11% of all sales.

Home Price Index, All Transactions

Hampton Roads, 2005Q1 – 2019Q3 Quarterly

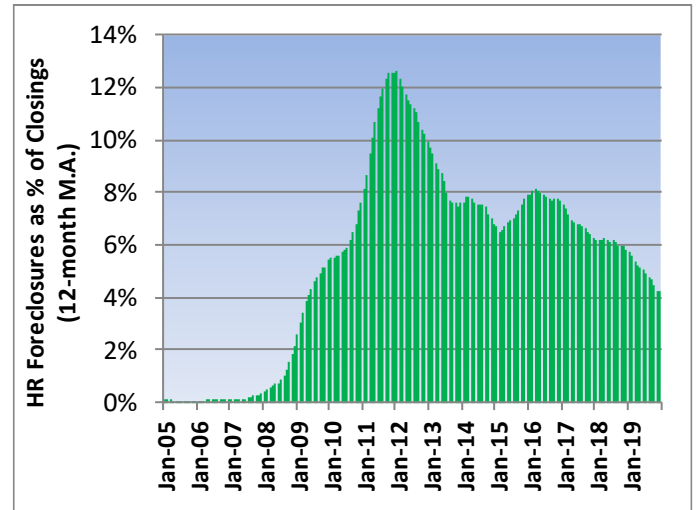


Source: Federal Housing Finance Agency, HRPDC

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 4.2% over the previous year in Q3 2019, remaining below both the state and the nation. Regional housing values remain 4.3% below those seen during the peak of the housing boom.

Foreclosures and Distressed Sales

Hampton Roads, Jan 2005 – Dec 2019, Monthly



Source: Zillow, HRPDC

Foreclosures: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Distressed homes' share of total sales has particularly been shown to impact the sale price of existing homes. The foreclosure level is still elevated from the housing boom, but has been steadily declining, showing some of the lowest rates since 2009. Foreclosures constituted 4.2% of all home resales in December of 2019, down from a recent high of 8.1% in April of 2016 (12-month average).