

## HOUSING HIGHS AND LOWS

The story of the housing market over the last few years has been one of rapid change and unexpected turns. In 2020 and 2021, while the broader economy was suffering a historic contraction, housing activity was booming. Nationally, mortgage originations reached record levels. In Hampton Roads, seasonally adjusted home sales outpaced sales during the housing boom of the early 2000s. The surge in demand caused home prices to soar in the first two years of the pandemic, rising 20% between February 2020 and February 2022.

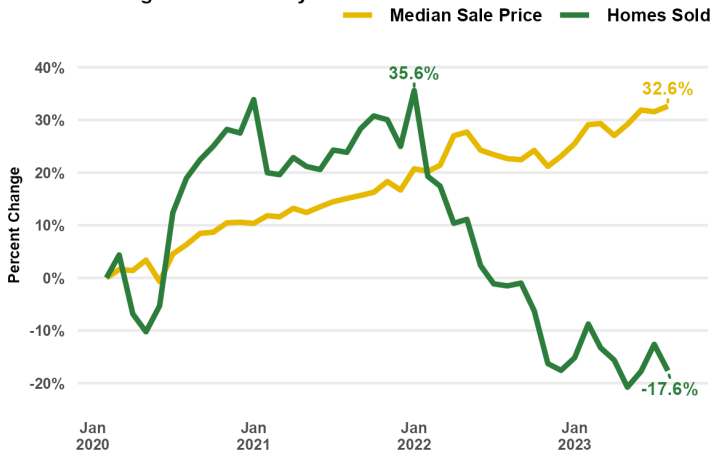
As inflation started to intensify in the latter half of 2021, the Federal Reserve took action by implementing a series of rate hikes, which led to an uptick in interest rates in 2022. As a result, the average rate for a 30-year fixed mortgage climbed dramatically, jumping over three percentage points from 3.1% in December 2021 to 6.3% by December 2022. As of October 2023, mortgage rates have risen even further, reaching 7.6%. While the increase in mortgage rates depressed sales, home prices have continued to increase.

As illustrated in Graph 1, homes sold in the region have steadily declined since early 2022. In August 2023, home sales were approximately 17.6% below pre-pandemic levels of February 2020. While home prices dipped in the first half of 2022 in response to reduced demand, they have continued to climb since then. In August 2023, the median sale price of a residential home in Hampton Roads was 32.6% higher than in February 2020. Adjusted for inflation, prices are up 12.2% from February 2020.

The resilience of home prices is due, in part, to an imbalance in supply and demand. While the demand for housing has slowed, the supply of homes remains too constrained to meet demand. As illustrated in Graph 2, it would have taken an estimated three months to sell off all active listing in the region in February 2020. After falling to record lows in 2021, inventories have only rebounded slightly to 1.5 months as of August 2023, nearly 50% below pre-pandemic levels.

**Graph 1: Median Sales Price and Homes Sold in Hampton Roads**

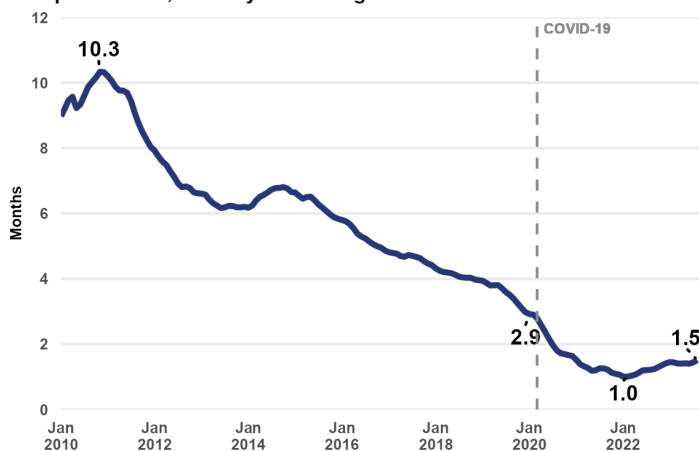
Percent Change from February 2020



Data source: Zillow Home Value Index (ZVHI), Real Estate Information Network, HRPDC

**Graph 2: Months' Supply of Inventory**

Hampton Roads, January 2010 - August 2023



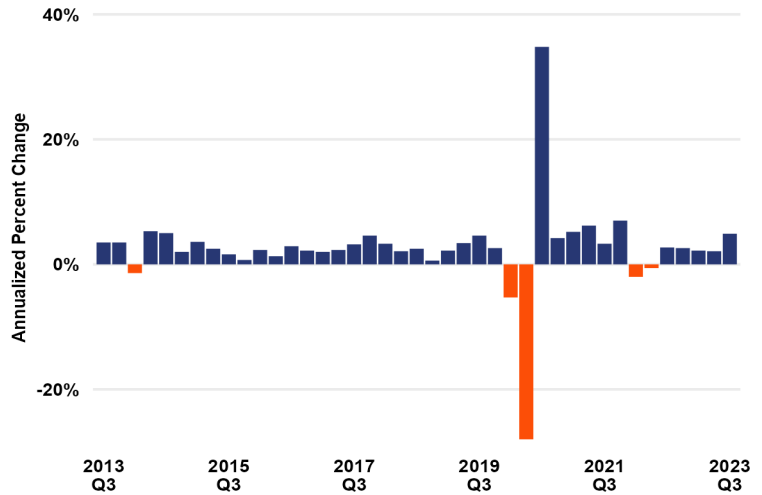
The combination of high mortgage rates, elevated home prices, and limited inventories has led to a historic deterioration in affordability. The Federal Reserve Bank of Atlanta's Housing Affordability Index shows affordability has fallen to its lowest level on record as monthly payments from both higher home prices and mortgage rate payments are causing housing costs to rise faster than incomes.

The recent changes in the housing market will continue to have a lasting impact in the years to come. While a further substantial rise in mortgage rates seems unlikely, the Federal Reserve signaling a "higher for longer" interest rate environment suggests we won't be returning to rates below 3% in the short term. To ease the persistent upward pressure on home prices, a significant increase in housing inventories will be essential.

**GDP, ANNUALIZED GROWTH RATE (Q)** SOURCE: BUREAU OF ECONOMIC ANALYSIS, HRPDC

	Q3 2022	Q3 2023	Trend
United States	2.7%	4.9%	▲

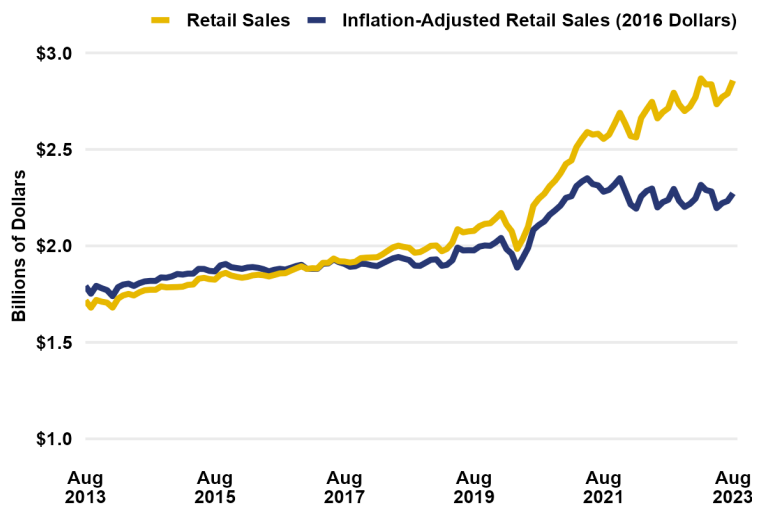
**GDP:** Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Adjusted for inflation, GDP rose 4.9% in Q3 2023, the largest rate of growth since 2021. Personal consumption accounted for 2.68 percentage points of the 4.9% increase in Q3. Investment and Government spending contributed 1.47 and 0.79 percentage points respectively. Net exports accounted for a 0.08 percentage point decline in GDP.



**RETAIL SALES, SEASONALLY ADJUSTED (3 MONTH M.A)** SOURCE: VIRGINIA DEPARTMENT OF TAXATION, HRPDC

	Jul '23	Aug '23	Trend
Hampton Roads	\$2.79B	\$2.86B	▲
Virginia	\$15.04B	\$15.36B	▲

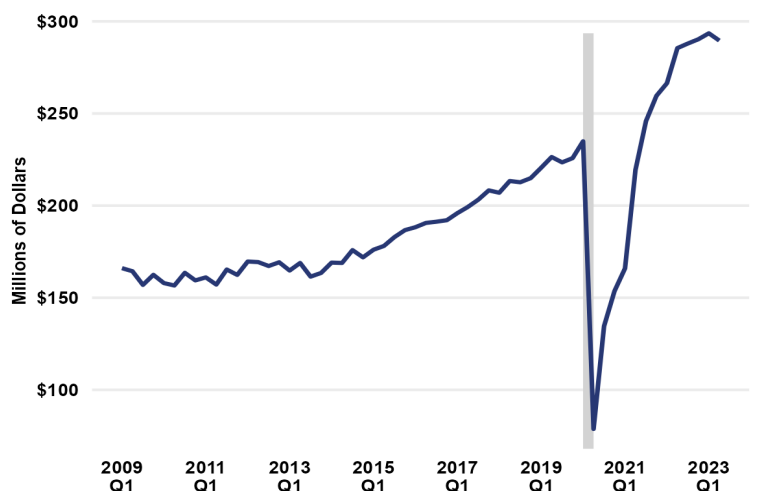
**Retail Sales:** Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted, August shows increased sales. Unadjusted, August 2023 shows a 2.4% increase from the previous month, and a 5.3% increase from the previous year. The recent surge in inflation has contributed to the nominal growth in retail sales. Adjusted for inflation, the growth in retail sales has slowed since late 2021.



**ESTIMATED HOTEL REVENUE, SEASONALLY ADJUSTED (Q)** SOURCE: VIRGINIA DEPARTMENT OF TAXATION, HRPDC

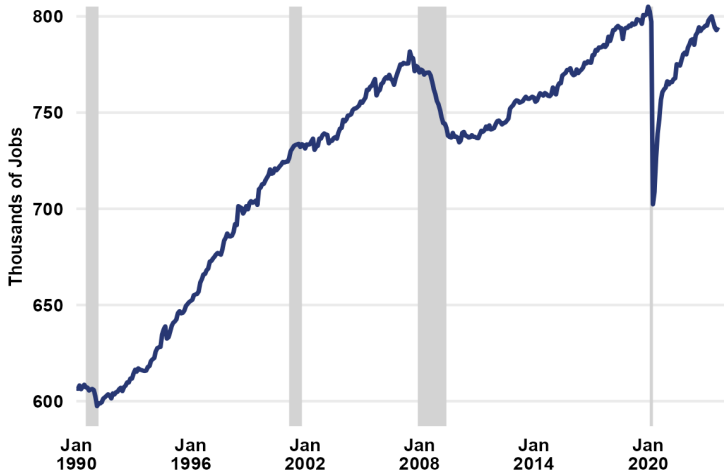
	Q2 2022	Q2 2023	Trend
Hampton Roads	\$286M	\$290M	▲
Virginia	\$1.0B	\$1.1B	▲

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q2 2023 hotel revenues increased 1.4% from the previous year. Hotel revenues declined 1.4% from the previous month, the first month-over-month decline in more than a year. Despite early signs of a cooling, hotels revenues remain 27.9% above pre-pandemic levels observed in Q2 2019.



CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



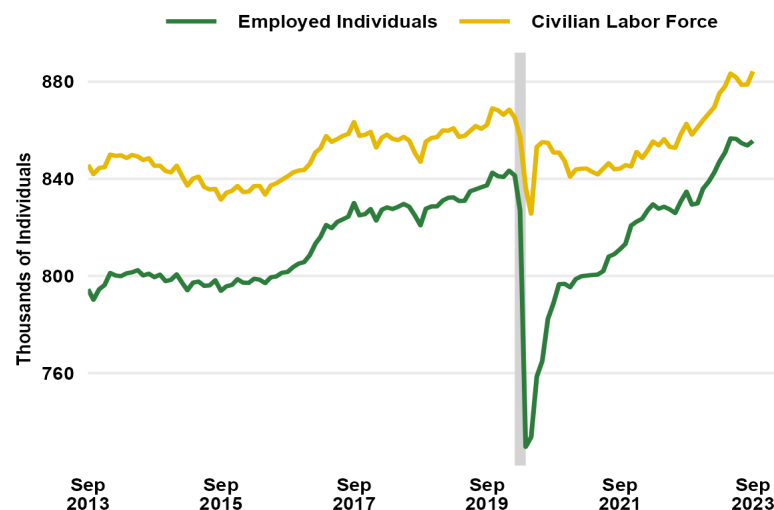
(seasonally adjusted)	Sept 2022	Aug 2023	Sept 2023	YoY % Change	MoM Trend
Hampton Roads	794,400	792,800	794,400	0.0%	▲
Virginia	4,106,700	4,157,800	4,157,700	1.2%	▲
United States	153,682,000	156,476,000	156,773,000	2.0%	▲

**Employment:** A leading indicator of labor market activity, the Bureau of Labor Statistics's payroll survey of businesses and government establishments measures the number of nonfarm civilian jobs. Seasonally adjusted, the number of jobs in September rose 0.2% from the previous month. The slight increase in jobs in September is welcome news after three straight months of negative growth. For the nation, job growth accelerated to its highest rate in more than a year. In the Commonwealth, the number of civilian jobs were relatively unchanged from the previous month. When seasonally adjusted, both the U.S. and Virginia have recovered all the jobs lost during the pandemic. Jobs in Hampton Roads remain 1.3% below the pre-pandemic peak observed in February 2020. Unadjusted, jobs in September 2023 remained 0.1% below levels observed in September 2019.

LABOR FORCE, SEASONALLY ADJUSTED (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

	Labor Force	Emp	Unemp	LF Trend
Aug 2023	878,831	853,757	27,488	▲
Sep 2023	884,250	855,579	29,924	

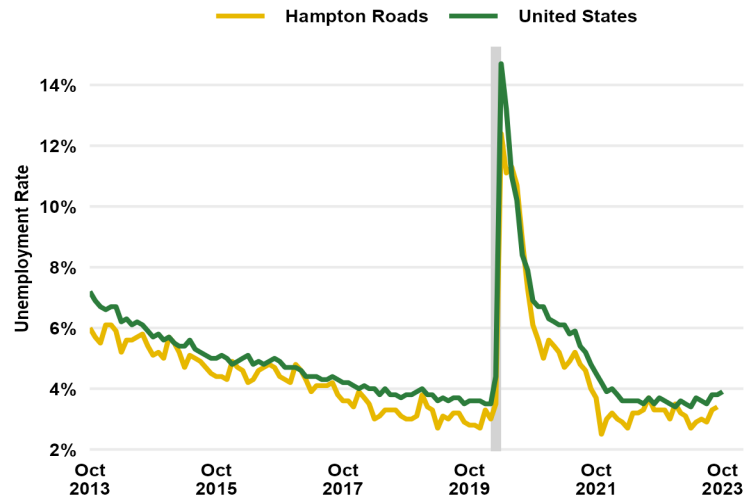
**Labor Force:** The Bureau of Labor Statistic's household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). Seasonally adjusted, the Hampton Roads labor force increased 0.6% in September from the previous month. Following the declines observed in June 2023 and July 2023, September marks the second straight month of positive labor force growth.



UNEMPLOYMENT RATE, SEASONALLY ADJUSTED (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

	Sep '22	Aug '23	Sep '23	Trend
Hampton Roads	3.3%	3.3%	3.4%	▼
Virginia	3.0%	2.5%	2.5%	▼
United States	3.5%	3.8%	3.8%	▼

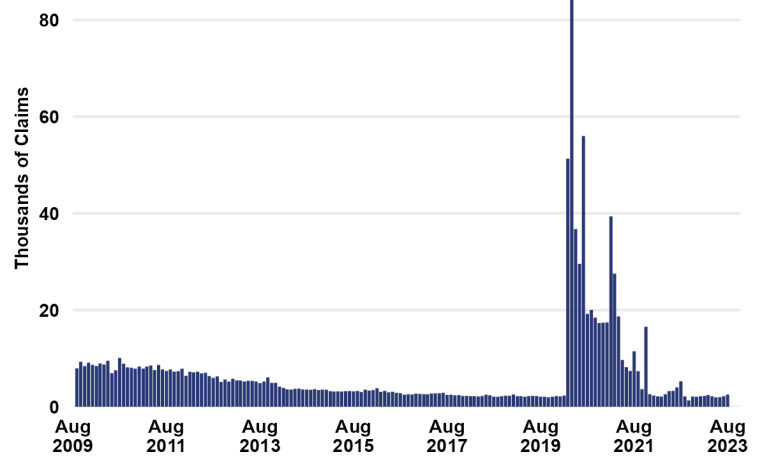
**Unemployment Rate:** The unemployment rate reflects the percentage of the labor force actively seeking work but unable to obtain a position. In September 2023, the Hampton Roads unemployment rate increased from the previous month from 3.3% to 3.4%. While unemployment rates remain historically low, the latest uptick could be signaling a slight easing of the tight labor market.



INITIAL UNEMPLOYMENT CLAIMS, SEASONALLY ADJUSTED (M) SOURCE: VIRGINIA DEPT OF LABOR, HRPDC

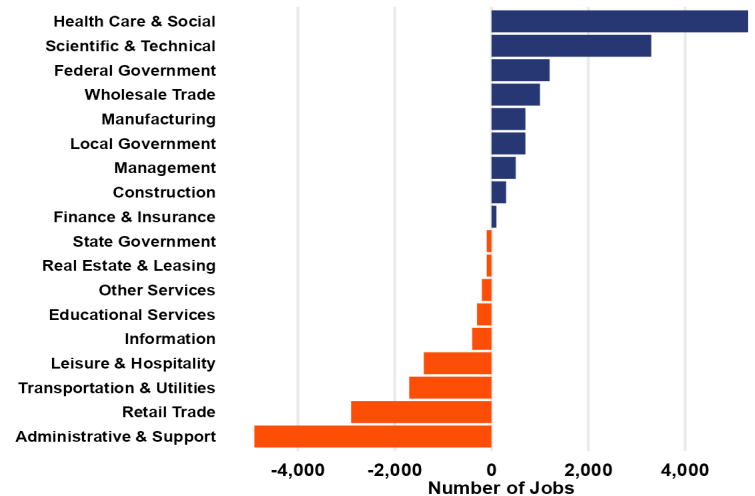
	Jul '23	Aug '23	Trend
Hampton Roads	2,186	2,535	▲
Virginia	9,489	10,125	▲

**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. In August 2023, the number of initial claims filed for unemployment increased from the previous month. A third straight month of increasing initial claims, these estimates continue to indicate unemployment is growing slightly, but remains at historical lows.



EMPLOYMENT GROWTH BY INDUSTRY (SEP, YEAR-OVER-YEAR) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

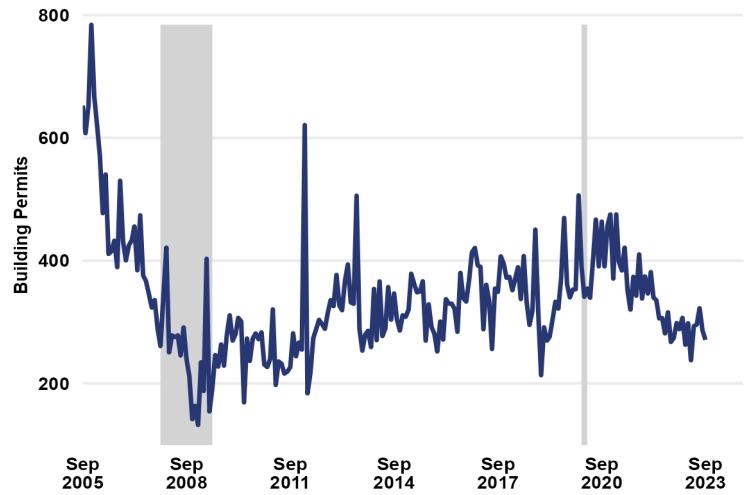
**Employment Growth by Industry:** As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In September, approximately half of industries experienced an increase in payroll employment compared to September 2022. The largest gains were in Healthcare and Social Assistance, which added 5,300 jobs when compared to September 2022. Scientific & Technical (+3,330) and Federal Government (+1,200) recorded the second and third largest gains. The Administrative & Support industry is down 4,900 jobs year over year, followed by Retail Trade (-2,900) and Transportation and Utilities (-1,700).



SINGLE FAMILY HOUSING PERMITS, SEASONALLY ADJUSTED (M) SOURCE: US CENSUS BUREAU, HRPDC

	Sep '22	Aug '23	Sep '23	Trend
Hampton Roads	267	286	271	▲

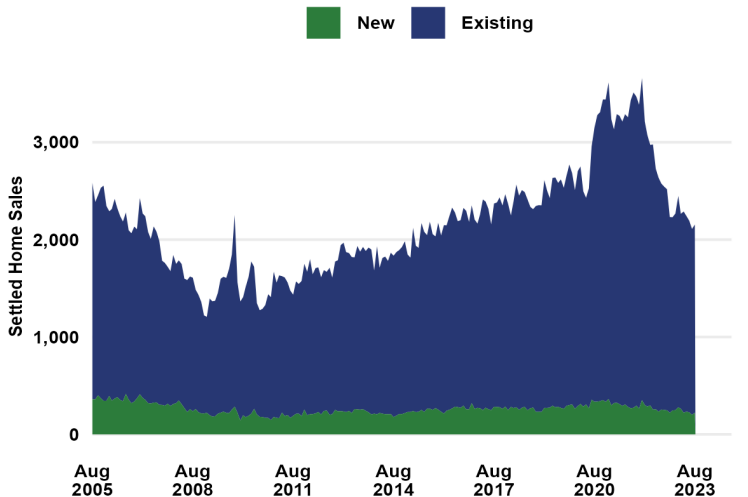
**Single Family Housing Permits:** Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 271 new construction permits issued for single family homes in September 2023, a 1.3% increase from the previous month. The number of permits issued in September were 46% below the pre-pandemic levels observed in February 2020. A higher interest rate environment will continue to pose challenges to this indicator in the short term.



NUMBER OF HOMES SOLD, SEASONALLY ADJUSTED (M) SOURCE: REIN, HRPDC

	Aug '22	Jul '23	Aug '23	Trend
Hampton Roads	2,575	2,110	2,154	▲

**Home Sales:** Settled home sales measure the level of transactions in the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, total settled home sales totaled 2,154 in August, an increase of 2.1% from the previous month. New home sales, representing 10.3% of total sales, rose 11.1% from July. The sale of existing homes, the remaining 89.7% of total home sales, rose 1.9% month-over-month. Compared to the same month last year, total sales in August had decreased 16.3%.



30-YEAR FIXED RATE MORTGAGE AVERAGE (M) SOURCE: FREDDIE MAC, HRPDC

	Oct '22	Sep '23	Oct '23	Trend
United States	6.9%	7.2%	7.6%	▲

**30-Year Mortgage Rate:** The 30-year fixed-rate mortgage represents the average interest rate paid by borrowers on newly issued mortgage loans, and these rates typically fluctuate in tandem with interest rate cycles. Shifts in the cost of borrowing for housing have a substantial influence on housing market trends. The average 30-year fixed-rate mortgage rate has surged, rising by more than four percentage points over the last two years. The increase in October was the largest year-over-year increase since 2022.

