



ECONOMIC & HOUSING MARKET UPDATE

Virginia Bankers Association
Lending & Credit Conference
October 24, 2022



**VIRGINIA BANKERS
ASSOCIATION**



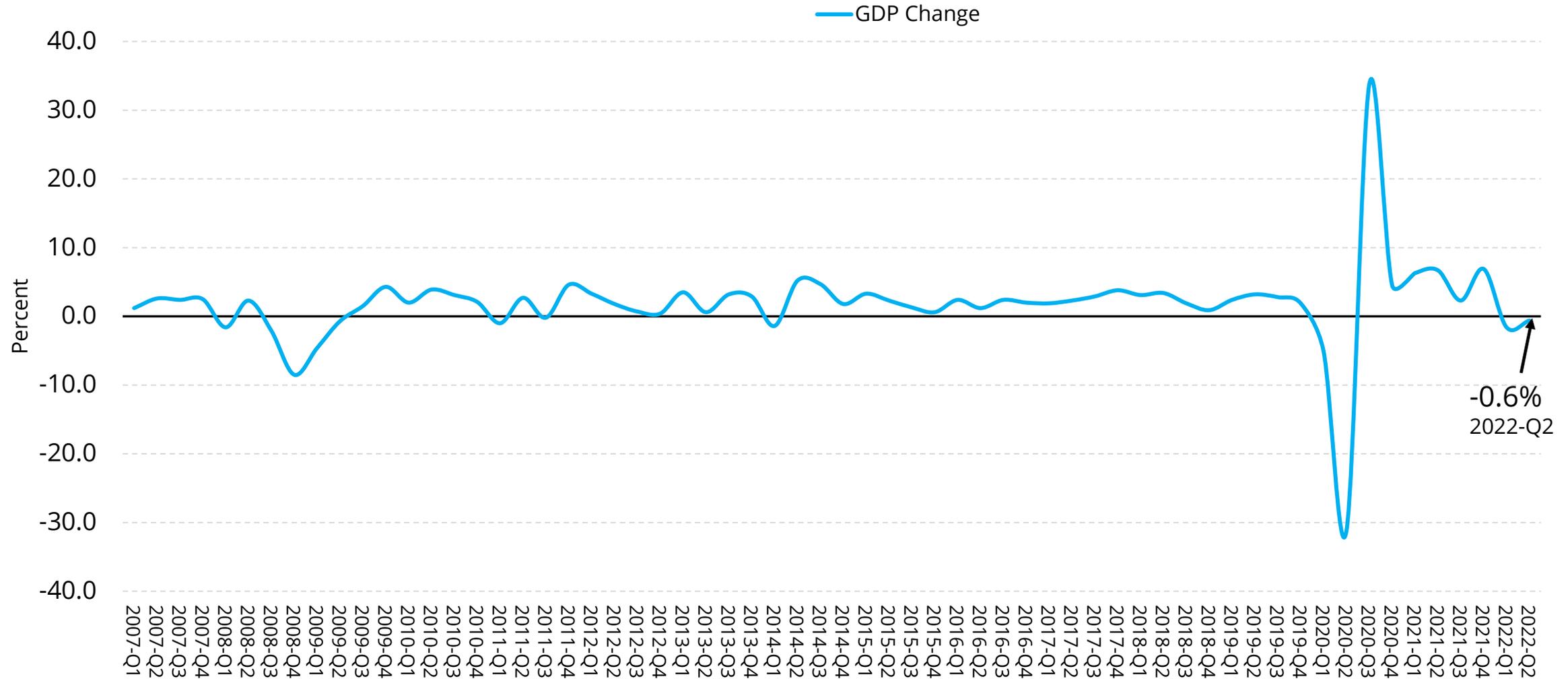
Ryan Price
Chief Economist
Virginia REALTORS®



ECONOMY

Gross Domestic Product - National

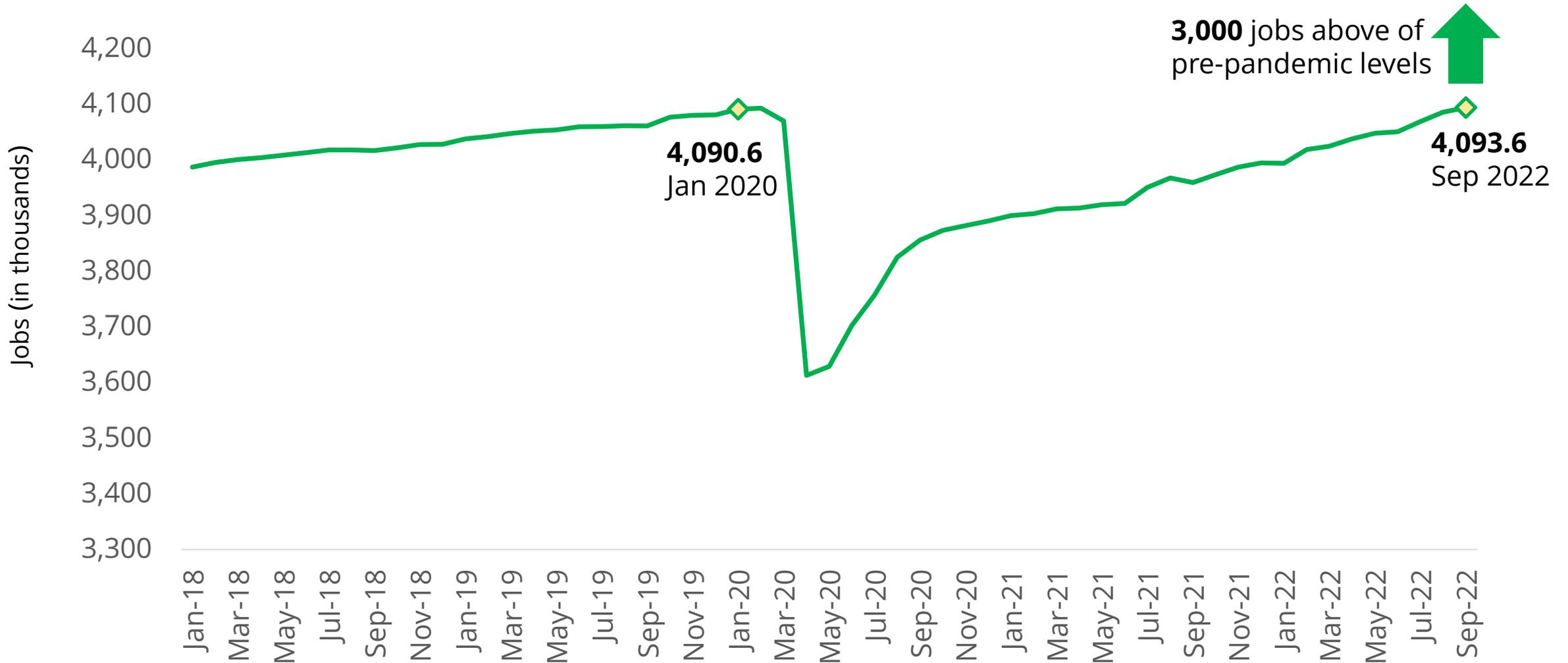
Annualized Change



Source: U.S. Bureau of Economic Analysis

Total Jobs in Virginia

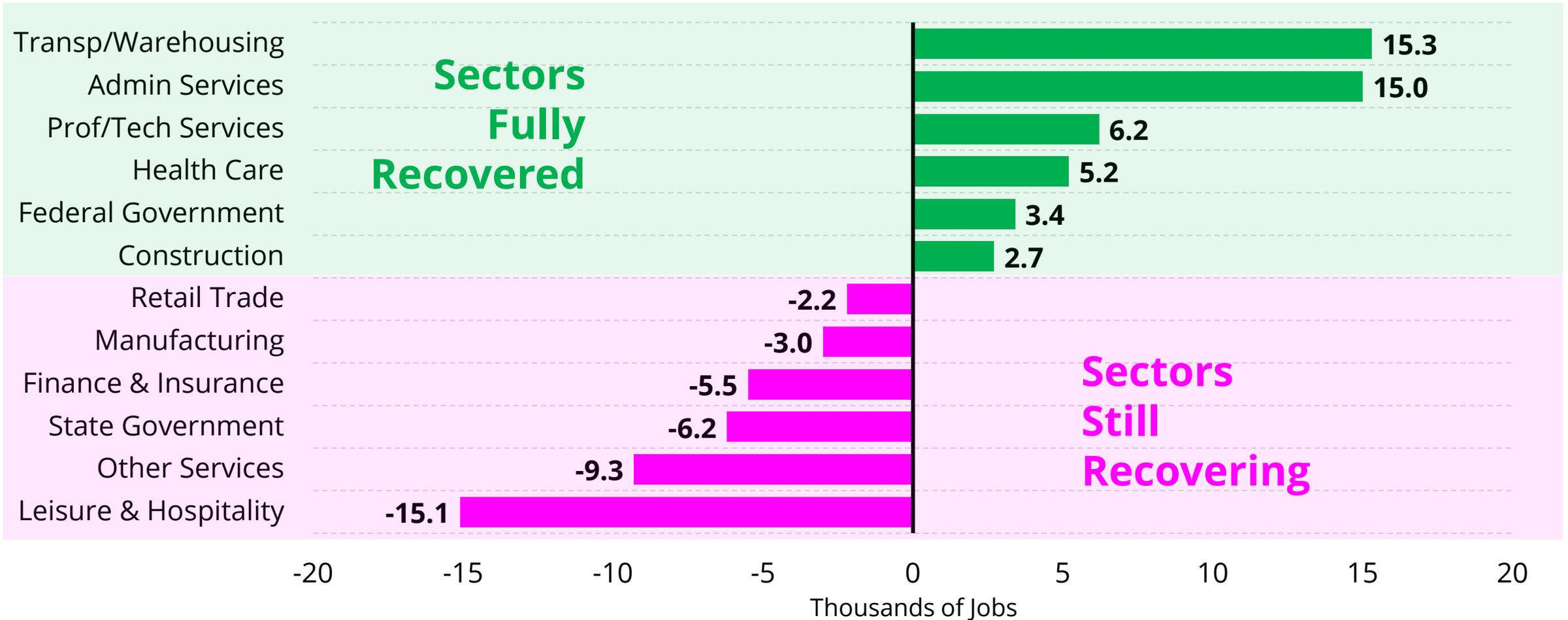
Rapid recovery, back to pre-pandemic levels



Source: U.S. Bureau of Labor Statistics

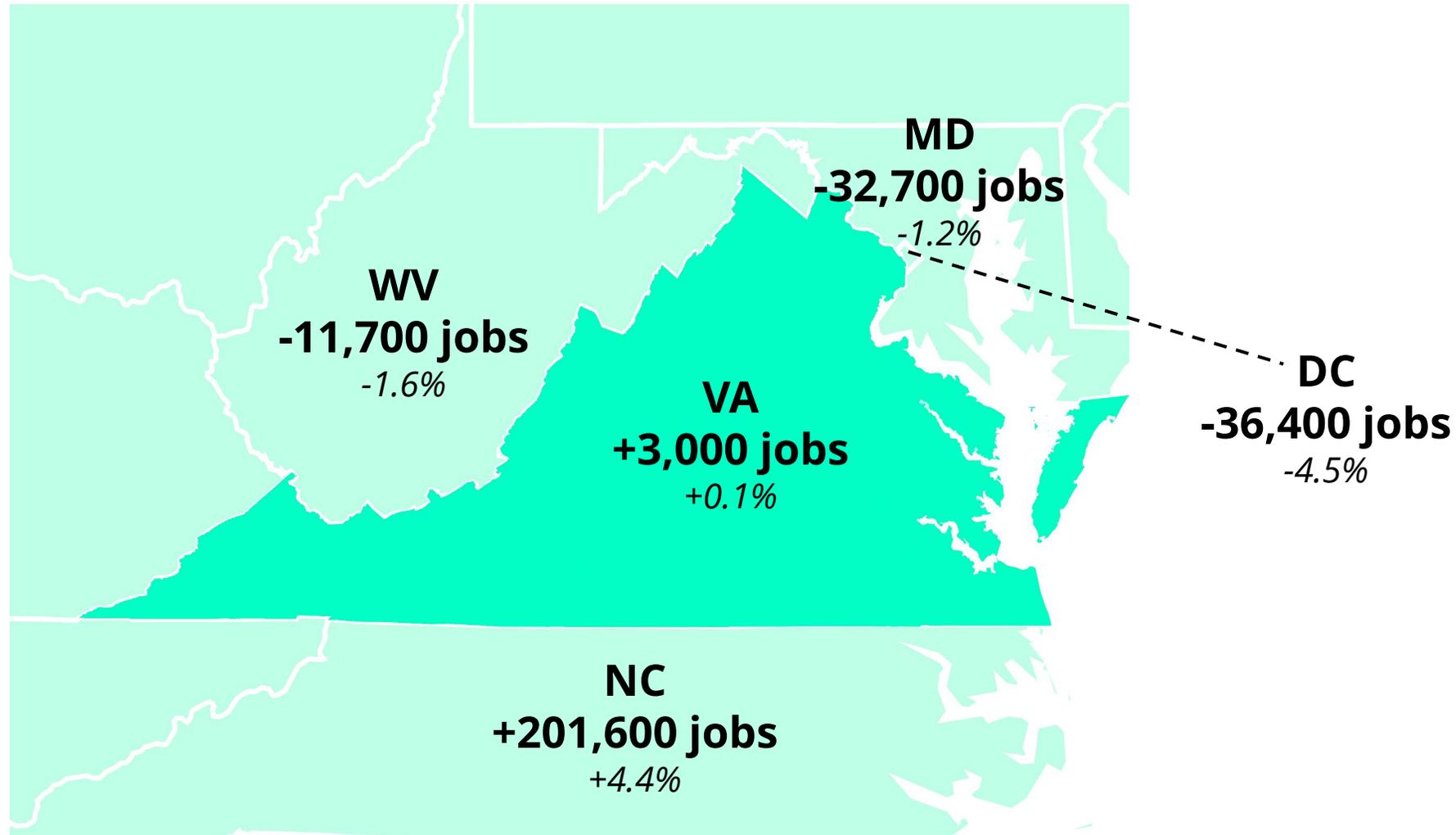
Job Recovery by Sector in Virginia

Virginia Employment by Sector
Sep 2022 Compared to Jan 2020

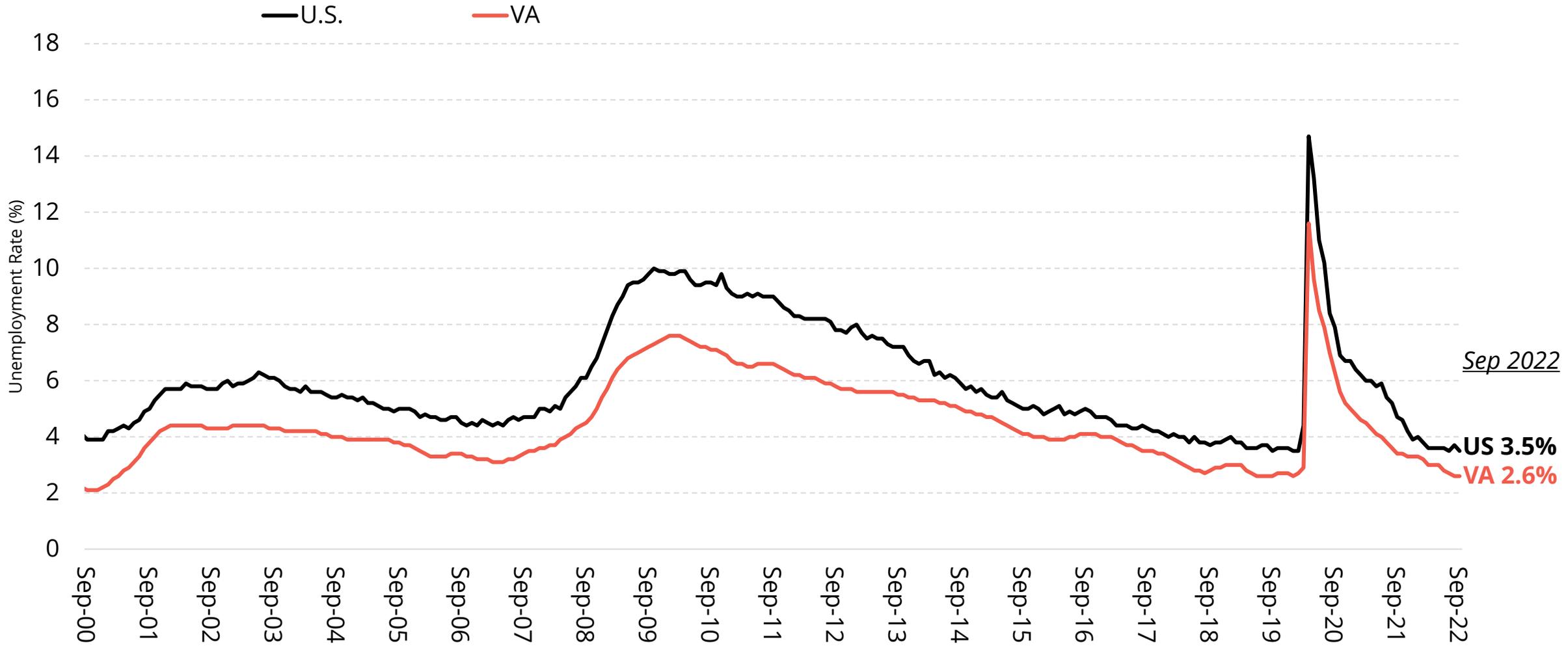


Job Recovery Mid-Atlantic

September 2022 compared to January 2020

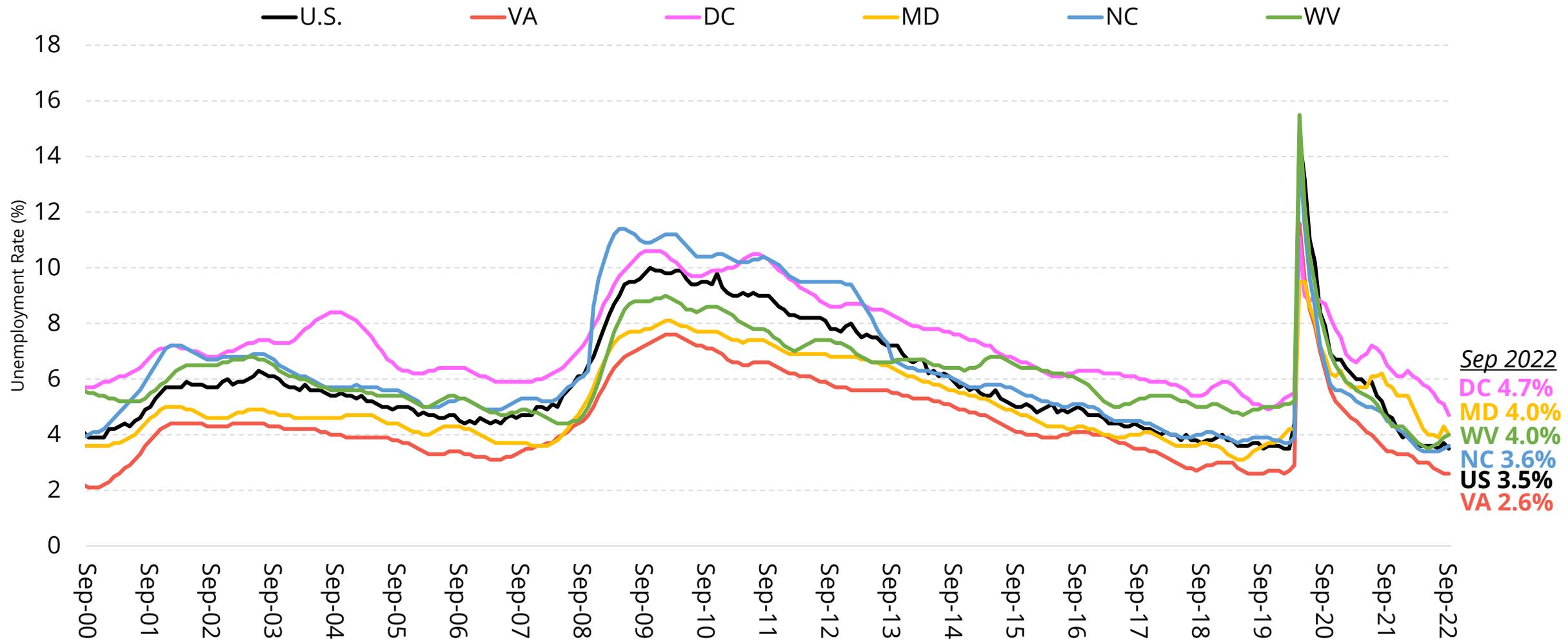


Unemployment Rate Virginia



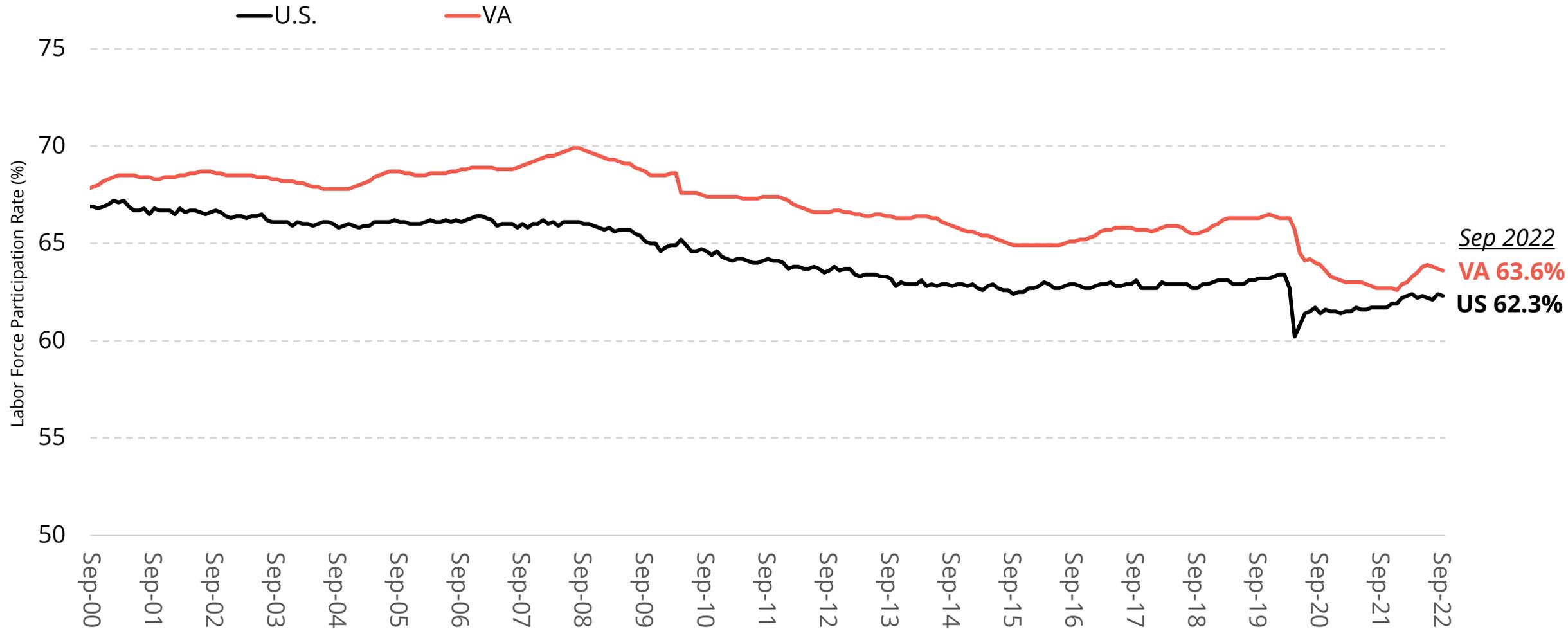
Source: U.S. Bureau of Labor Statistics, seasonally adjusted

Unemployment Rate Mid-Atlantic



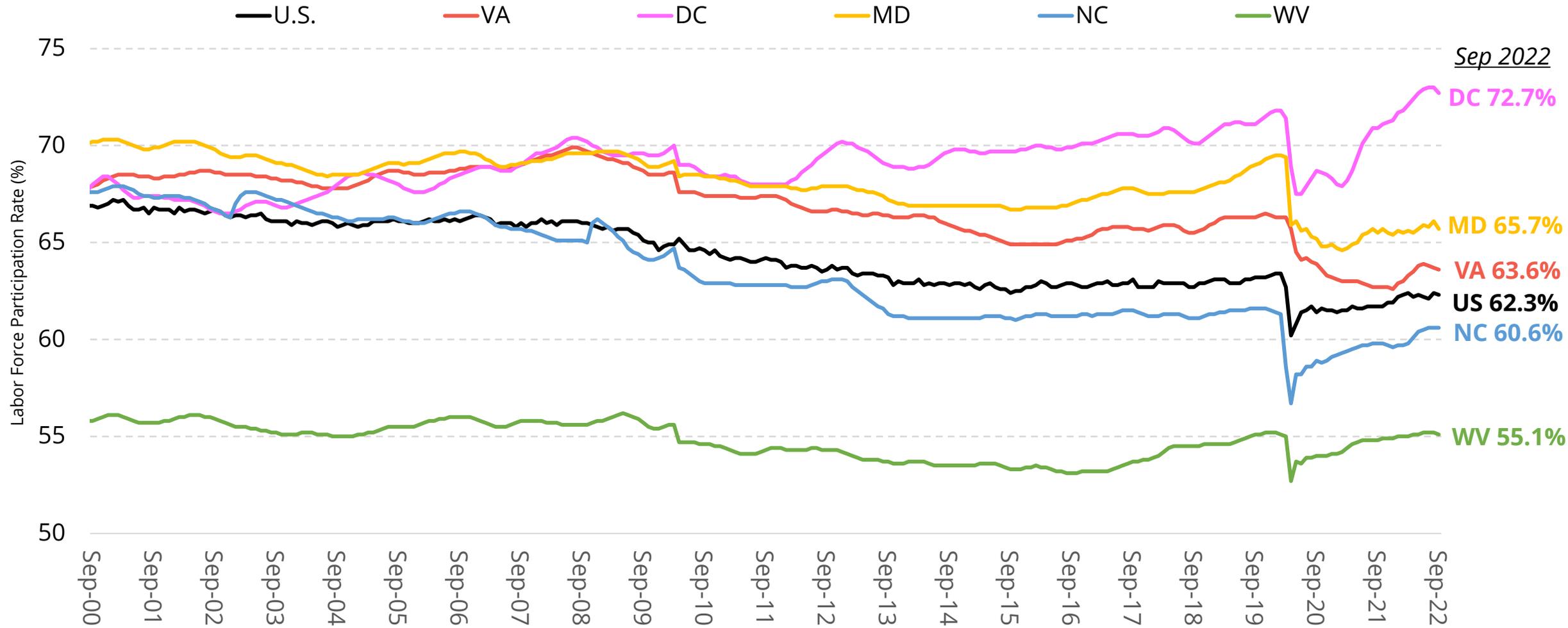
Source: U.S. Bureau of Labor Statistics, seasonally adjusted

Labor Force Participation Rate Virginia

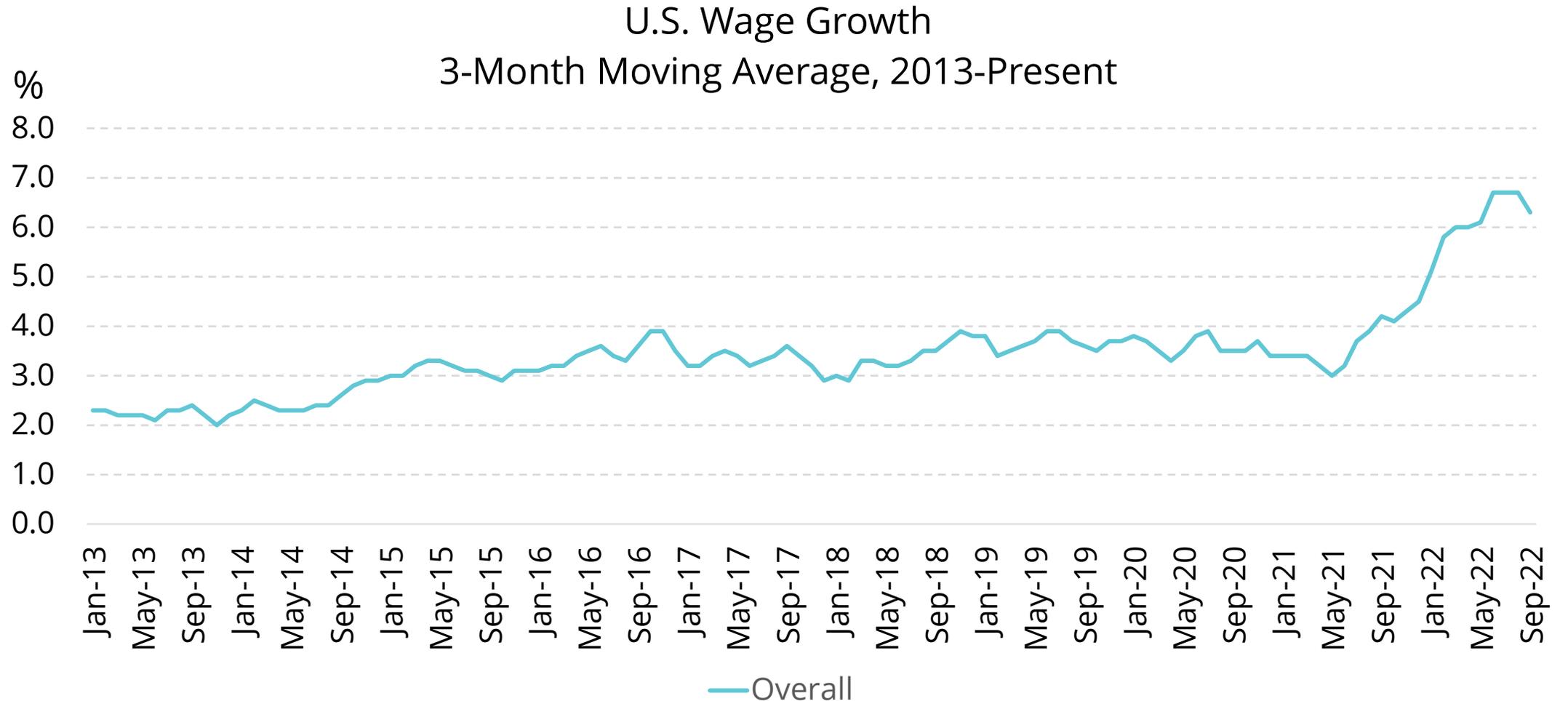


Source: U.S. Bureau of Labor Statistics, seasonally adjusted

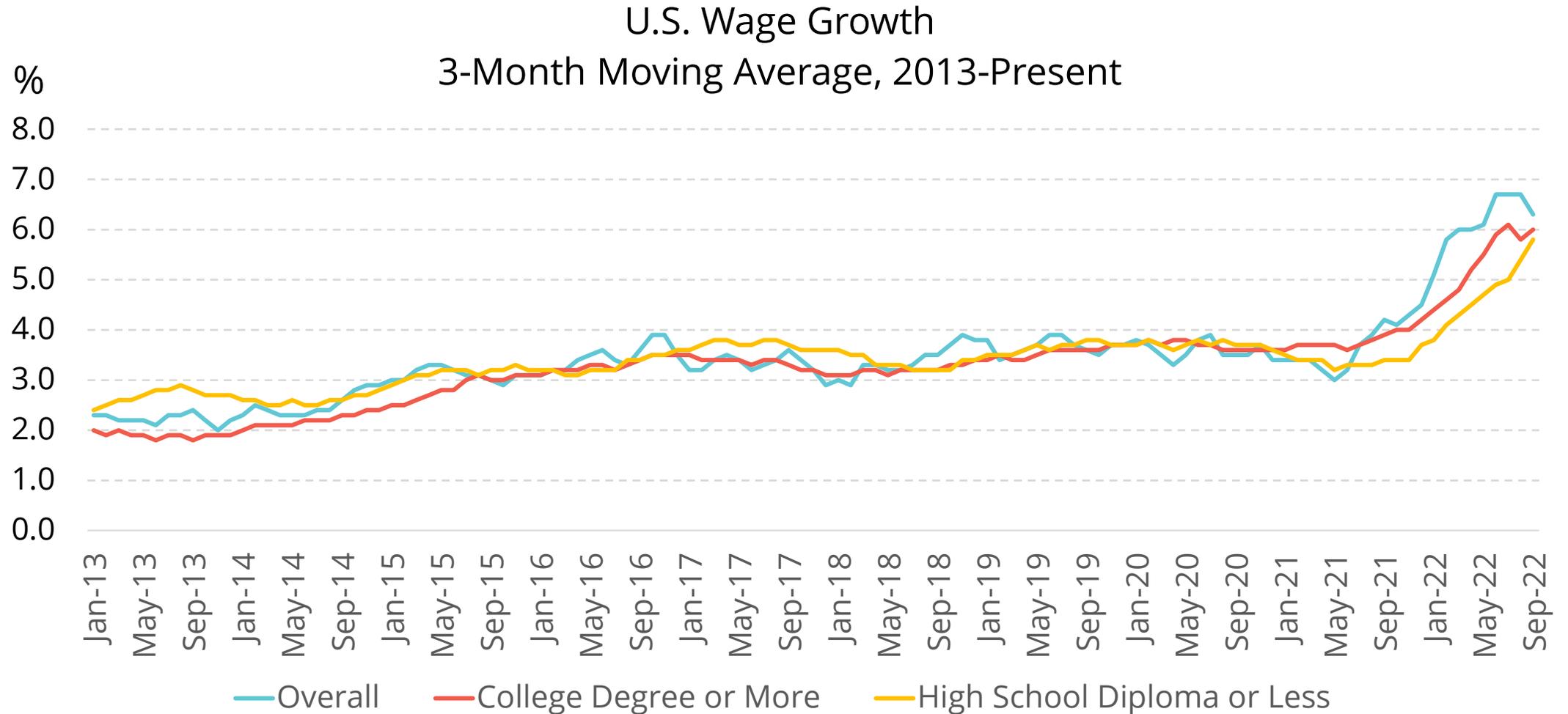
Labor Force Participation Rate Mid-Atlantic



Wage Growth

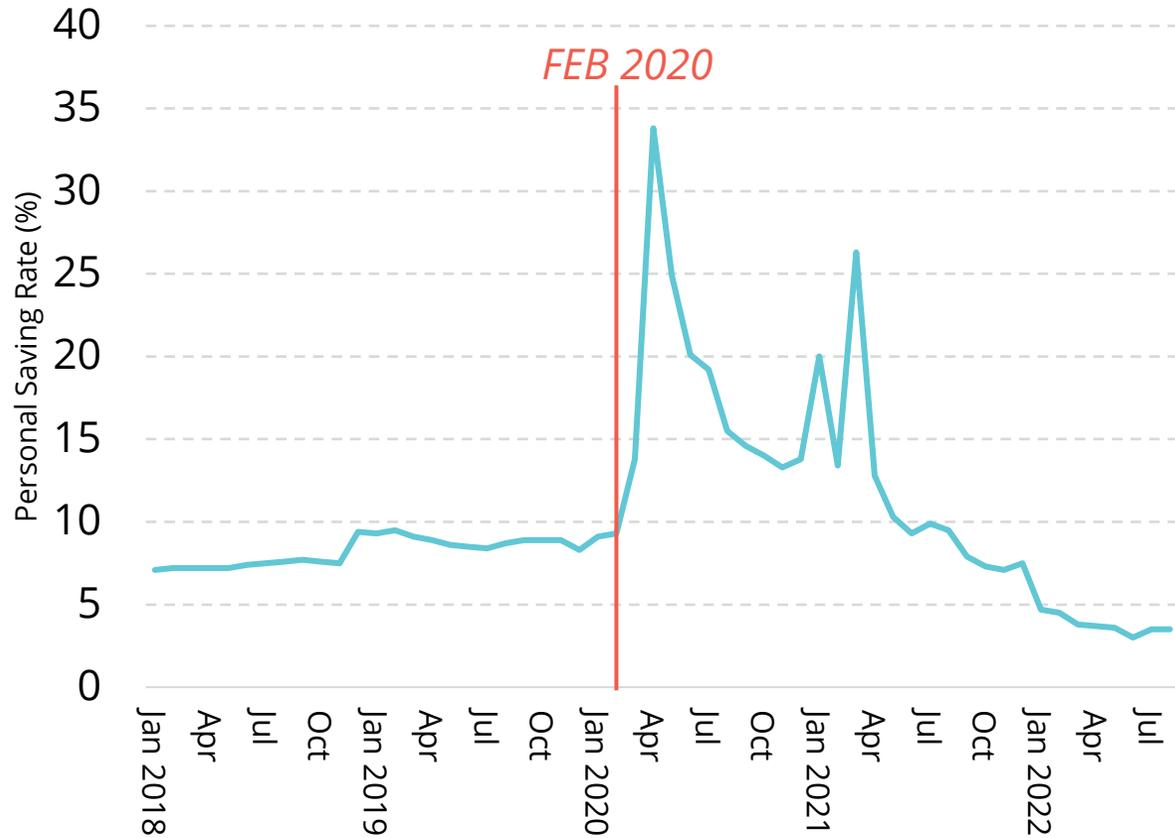


Wage Growth



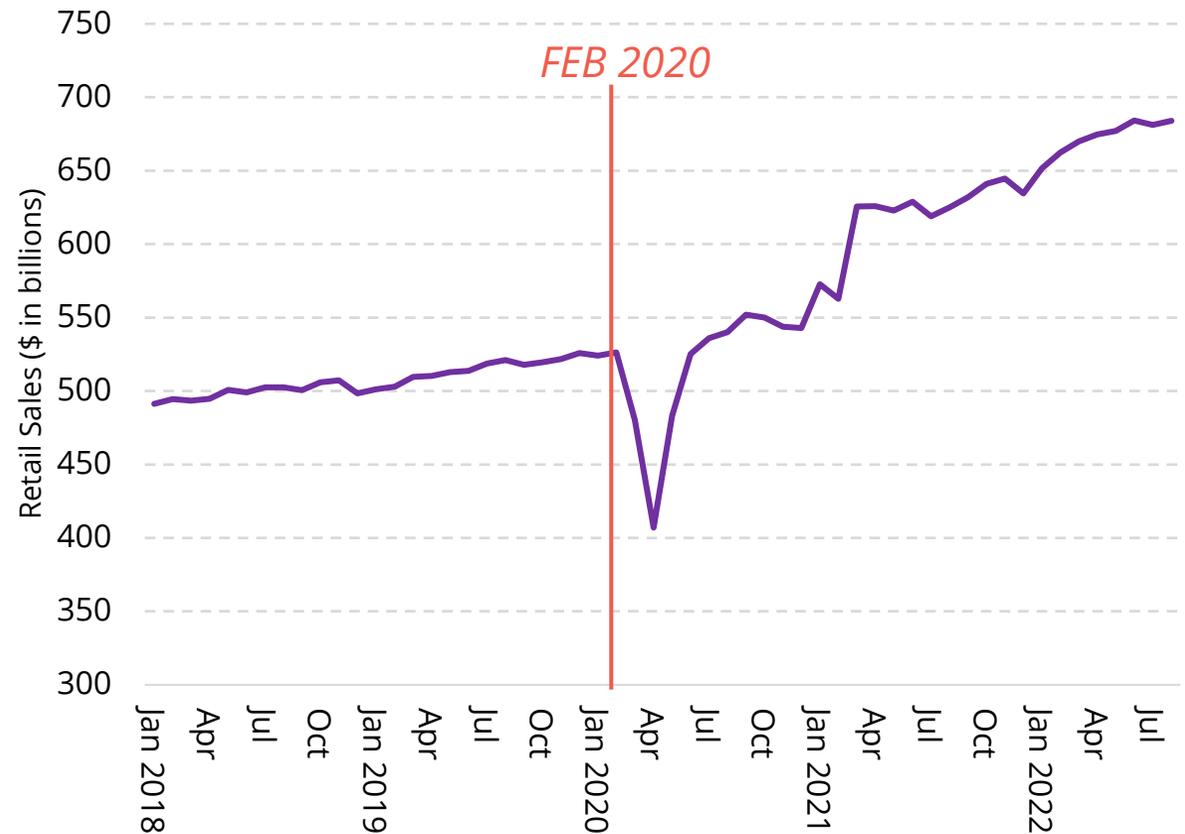
People saved, now they are spending

Personal Saving Rate (U.S.)



Source: U.S. Bureau of Economic Analysis

Retail Sales* (U.S.)



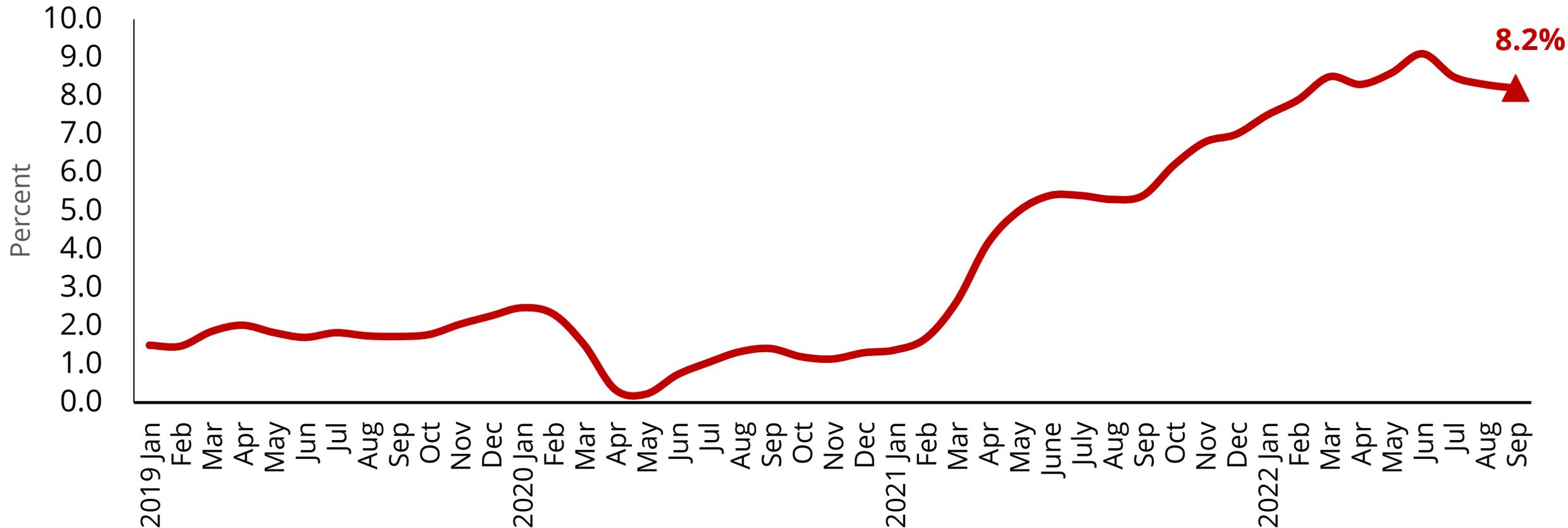
Source: U.S. Census Bureau
Total Retail and Food Services (excludes gas stations)

Consumer Sentiment



Inflation Stubbornly High

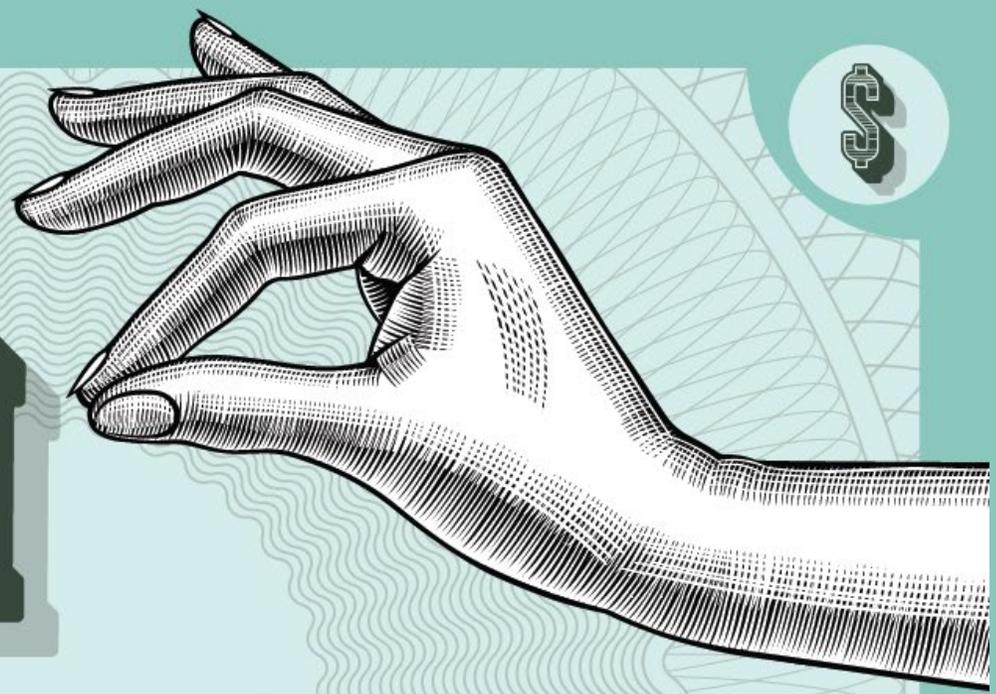
Change in CPI-U



Source: Bureau of Labor Statistics



FEELING THE PINCH



September 2022

PRICE INCREASE
FROM 1 YEAR AGO....



GASOLINE +18.2%



USED VEHICLES +7.2%



NEW VEHICLES +9.4%



GROCERIES +13.0%

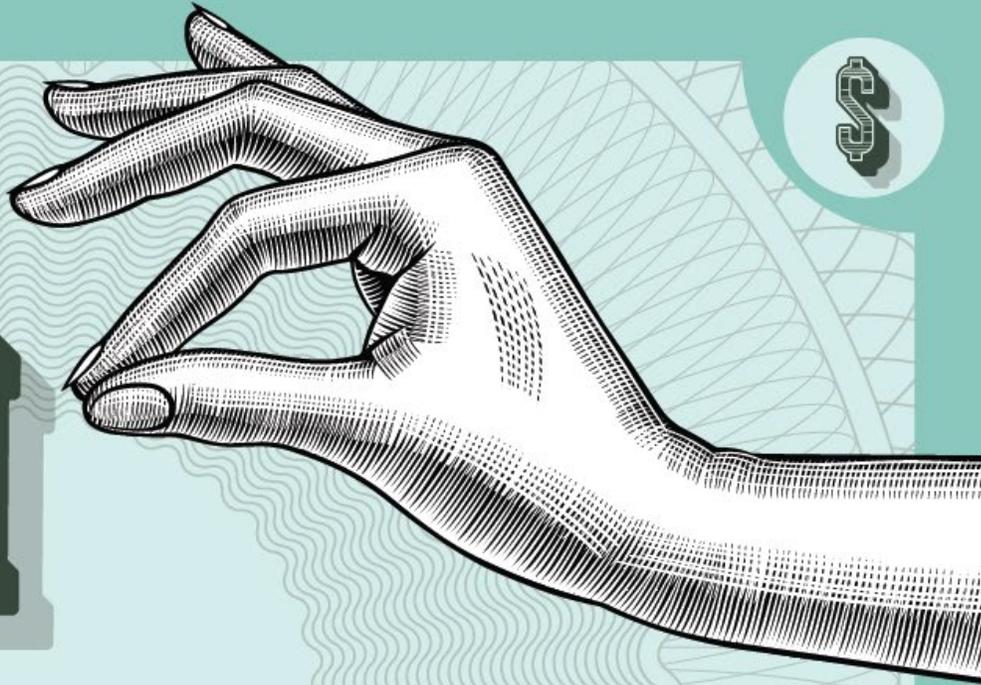


EATING OUT +8.5%





FEELING THE PINCH



September 2022

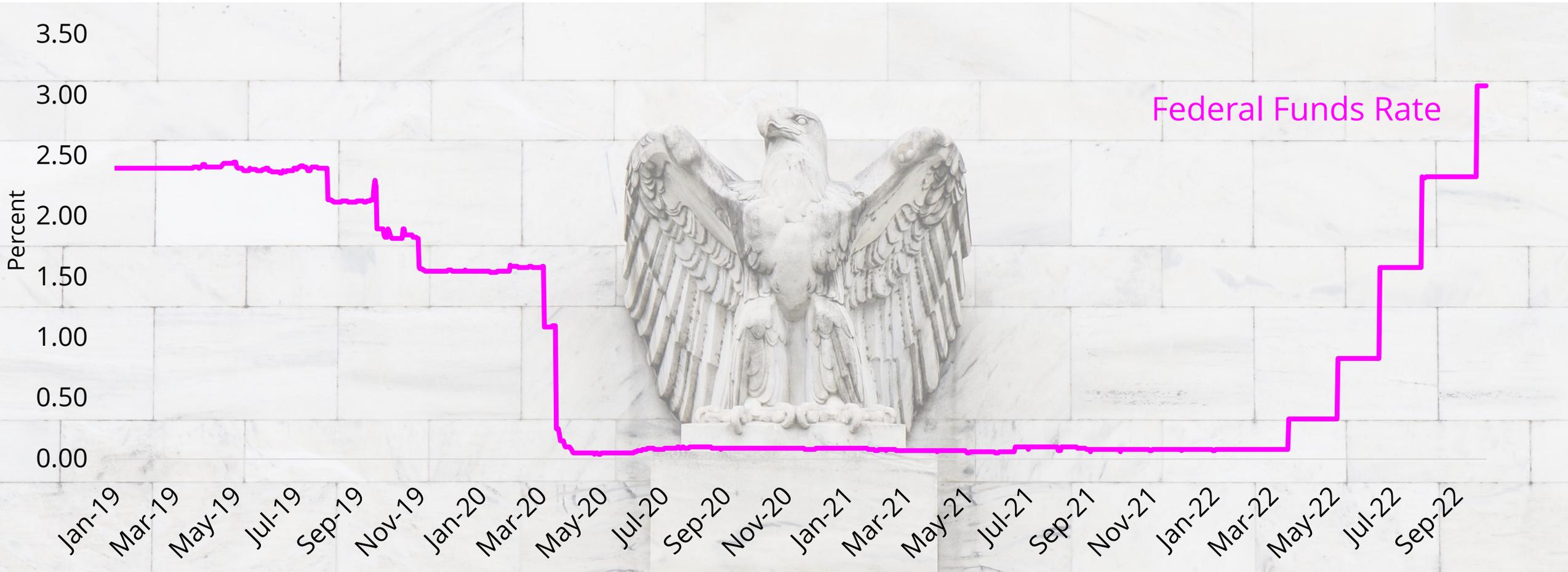
PRICE INCREASE
FROM 1 YEAR AGO....

May 2022

| | | |
|--|----------------------------|--------|
|  | GASOLINE +18.2% | +43.6% |
|  | USED VEHICLES +7.2% | +22.7% |
|  | NEW VEHICLES +9.4% | +13.2% |
|  | GROCERIES +13.0% | +10.8% |
|  | EATING OUT +8.5% | +7.2% |

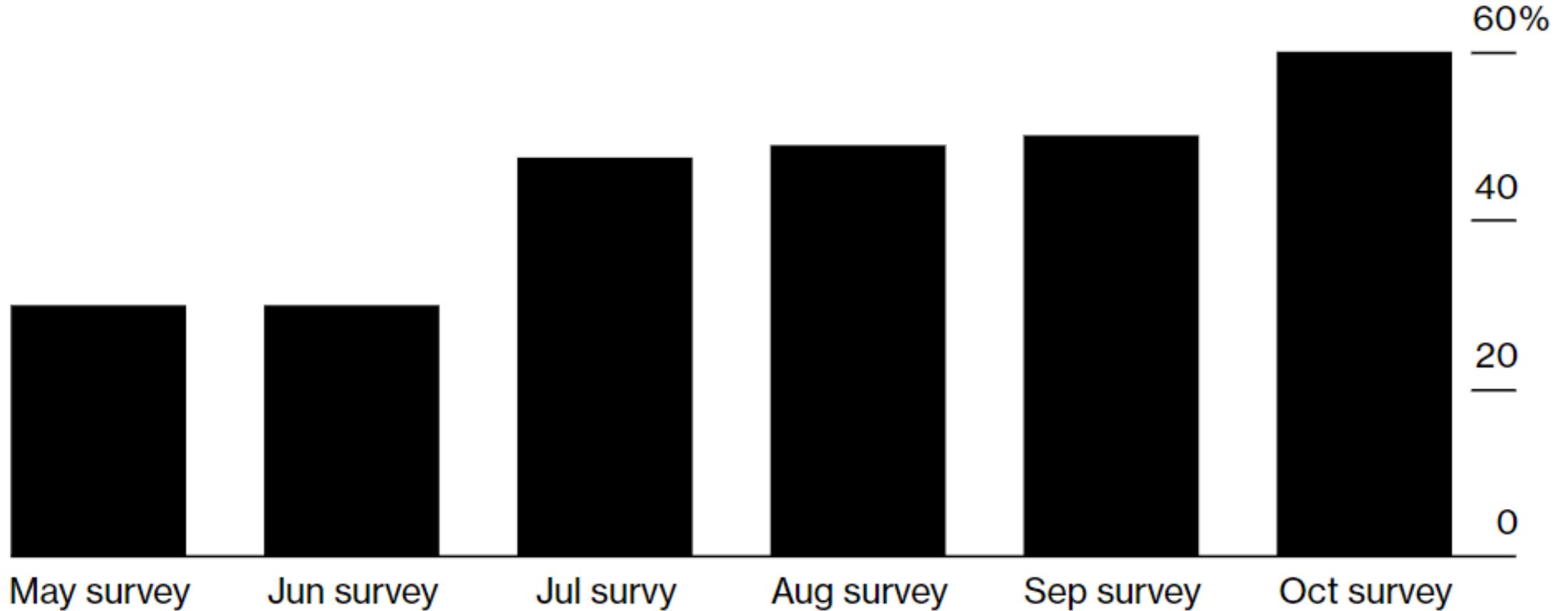


Inflation and the Fed's Response



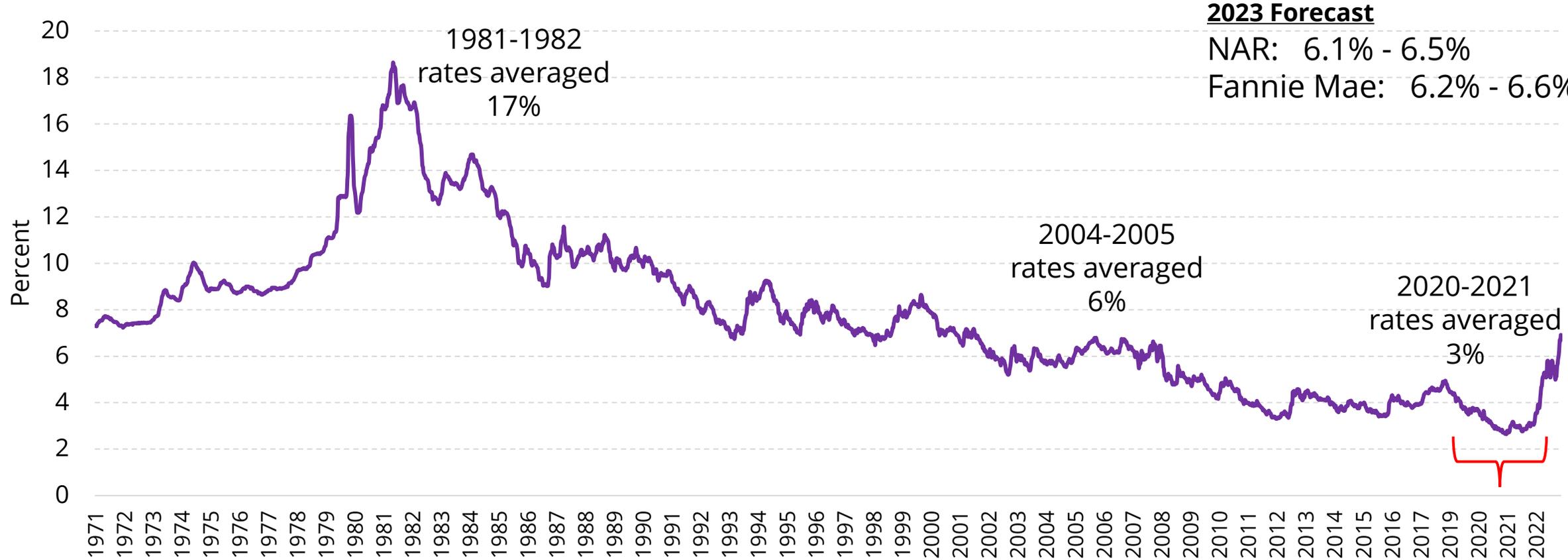
Will Rate Hikes Trigger Recession?

■ Odds of recession



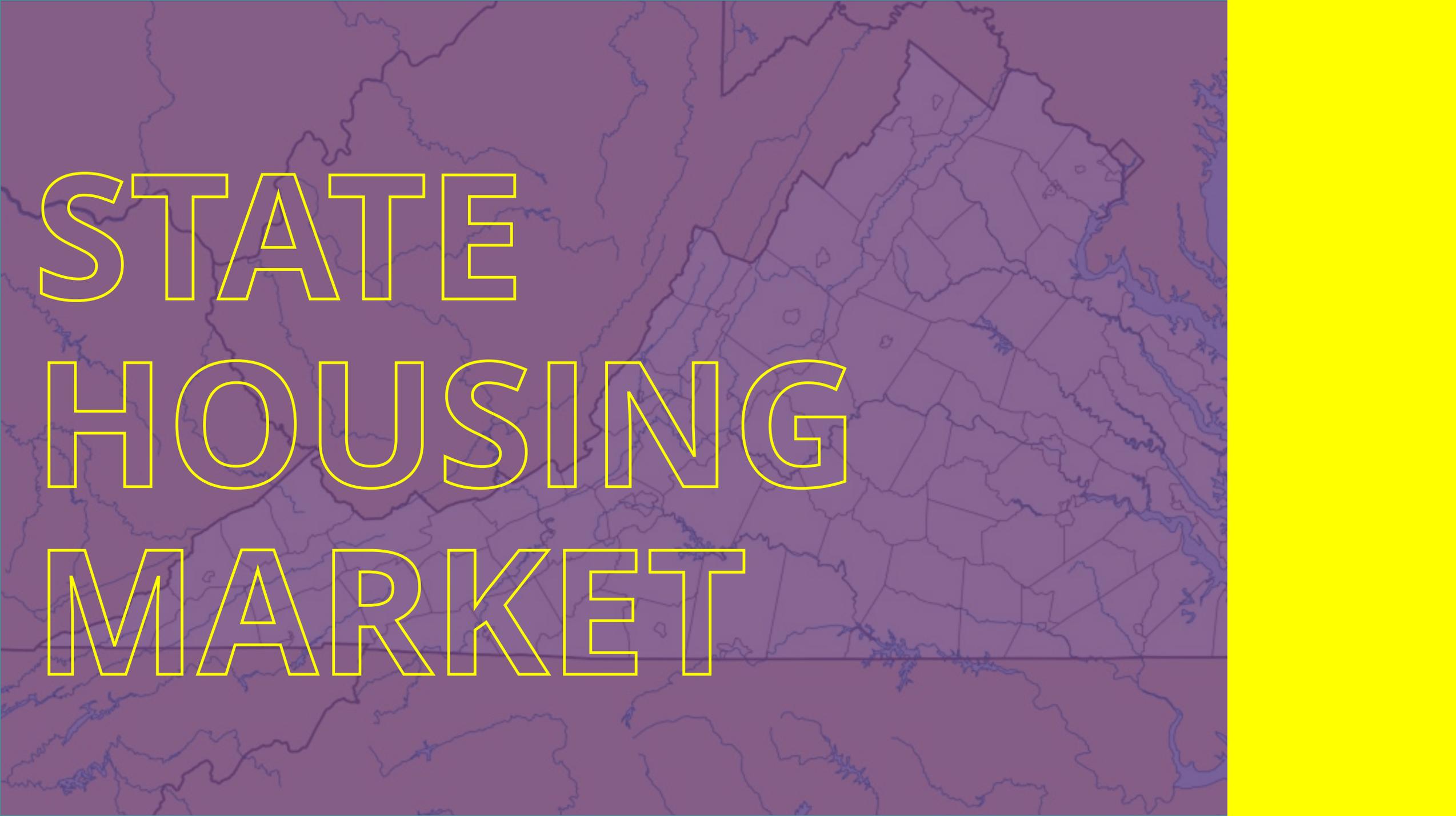
Long-Term Mortgage Rates

30-Year Fixed Rate Mortgage Rate (weekly average)



2023 Forecast
 NAR: 6.1% - 6.5%
 Fannie Mae: 6.2% - 6.6%

Source: Freddie Mac

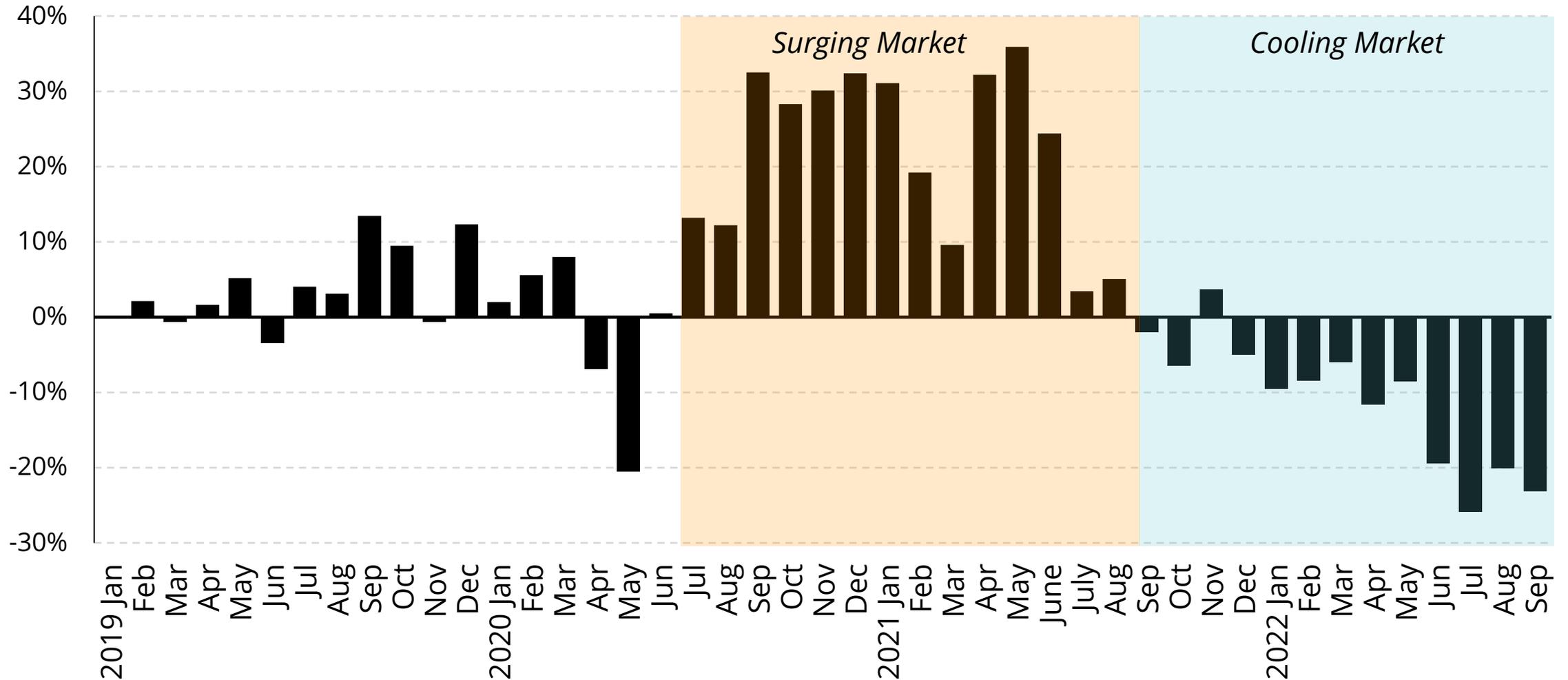


STATE HOUSING MARKET



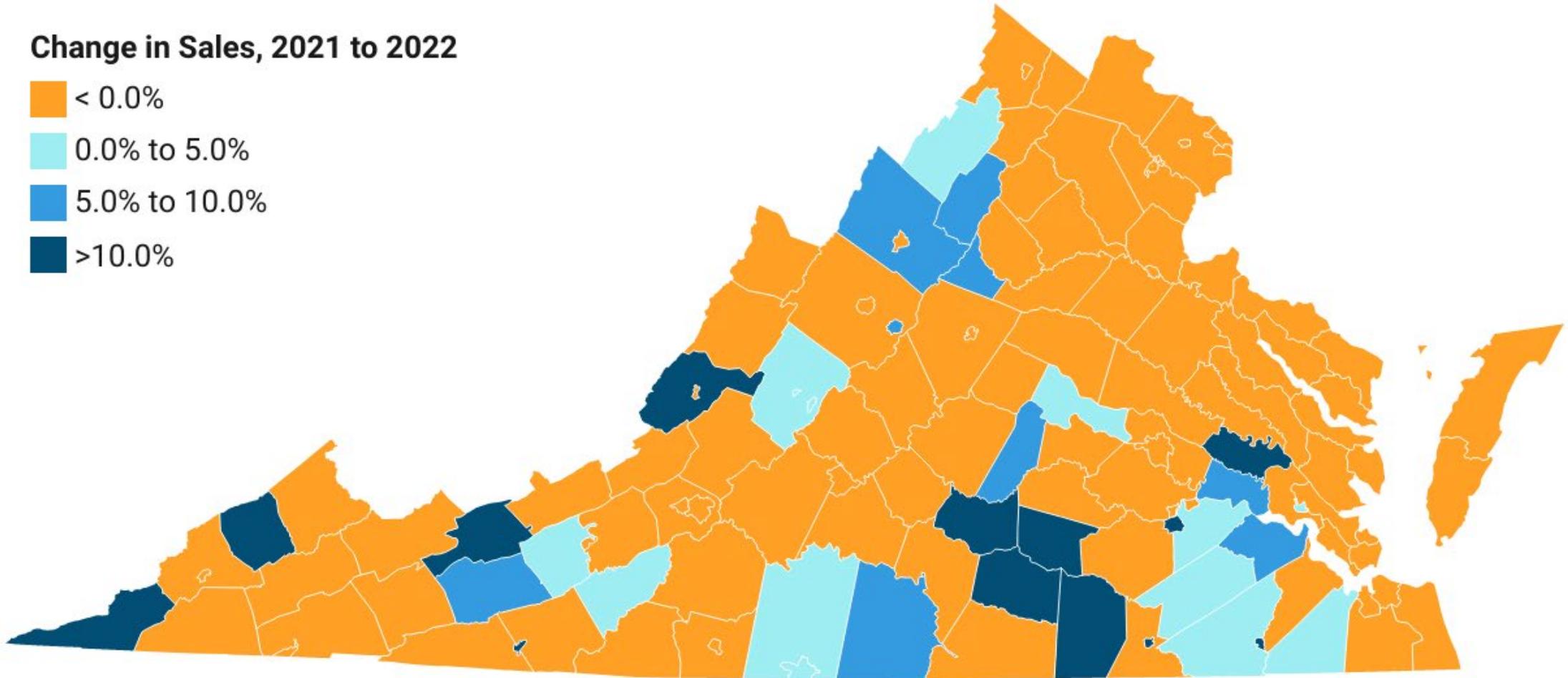
Virginia Home Sales

Y-o-Y Change in Monthly Home Sales



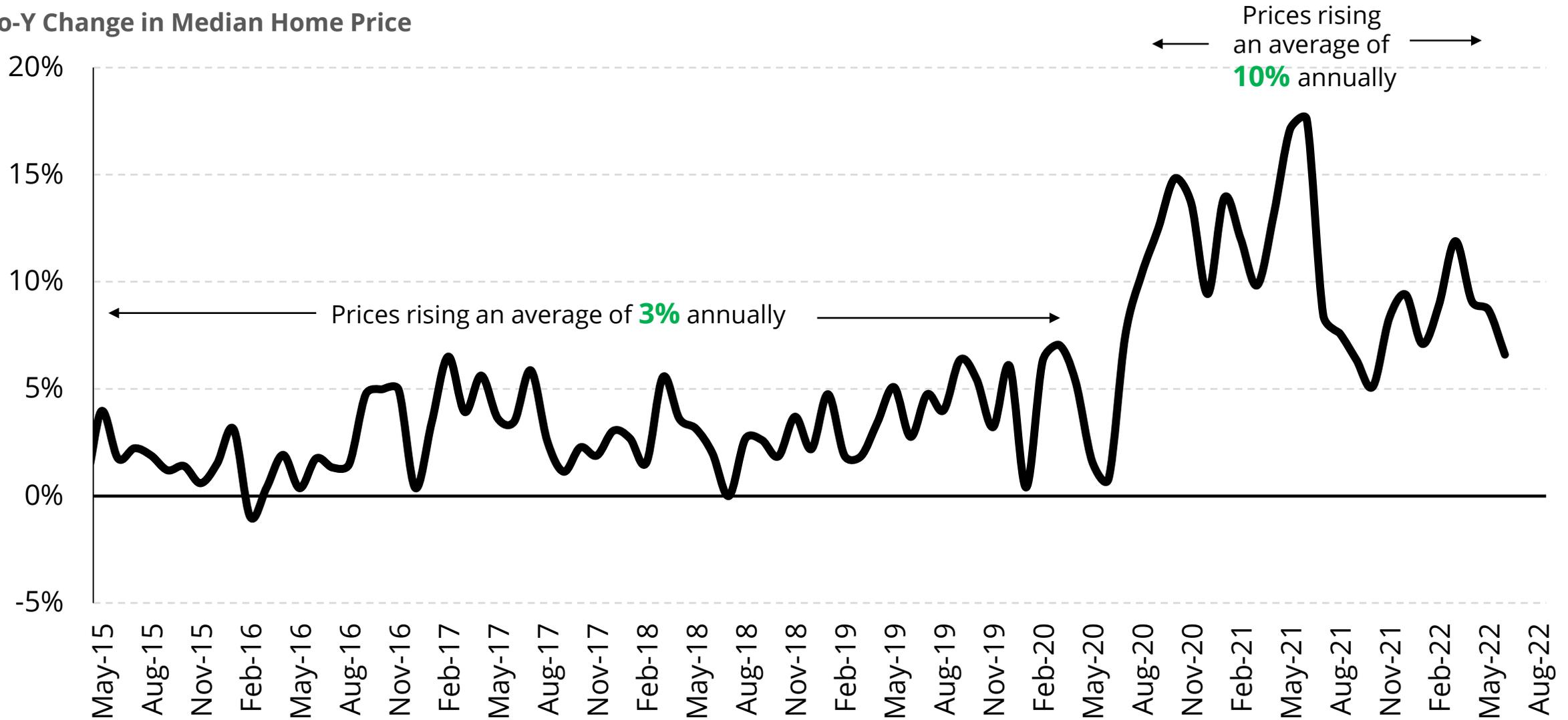
Local Trends - Homes Sales (Sep. Year-to-Date)

Change in Sales, 2021 to 2022



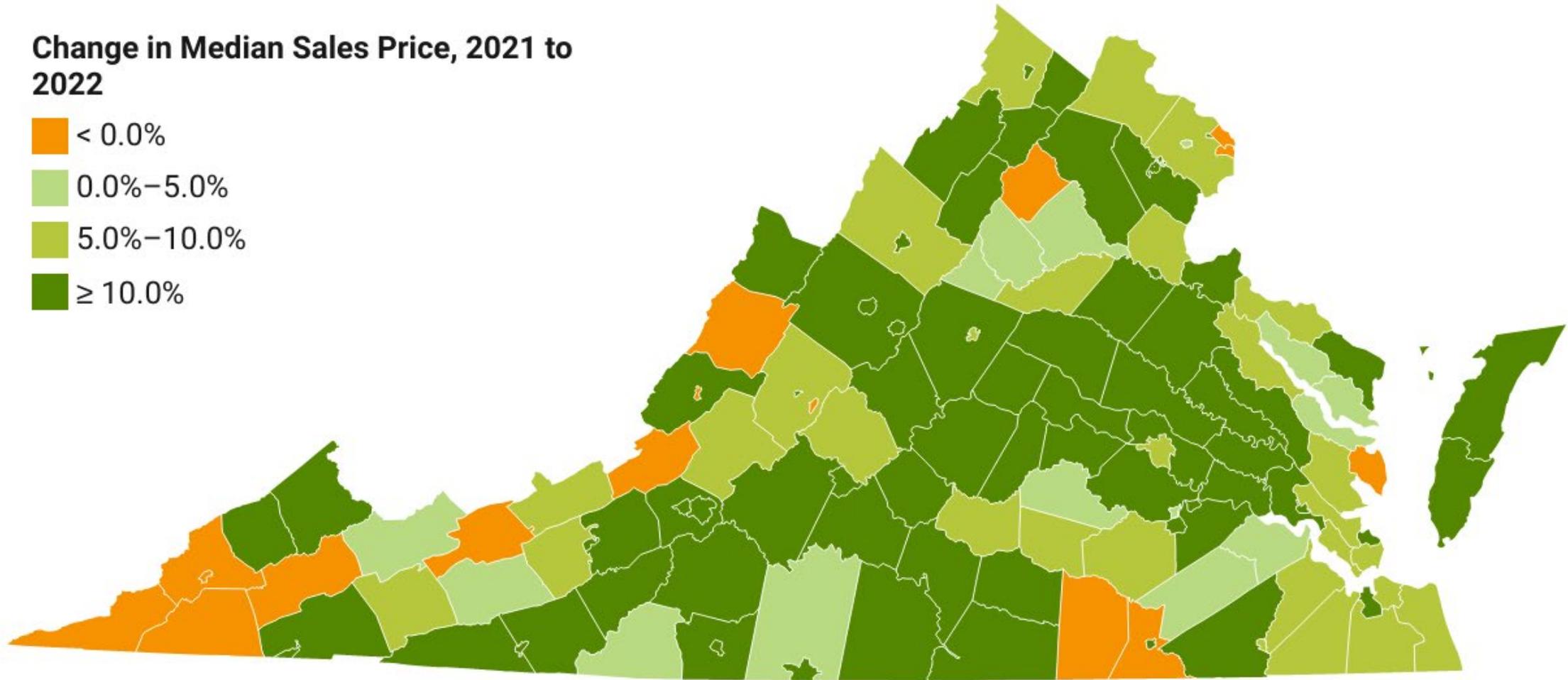
Virginia Home Prices

Y-o-Y Change in Median Home Price



Home Prices (Sep. Year-to-Date)

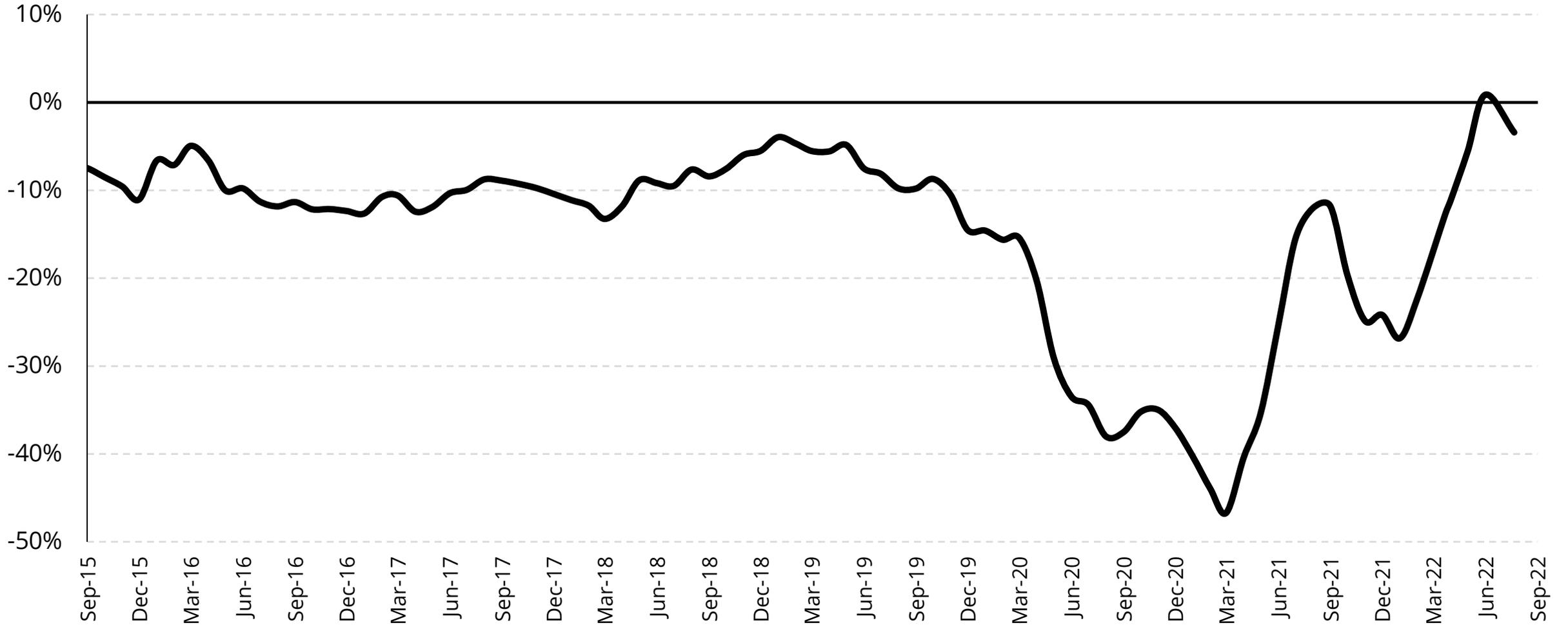
Change in Median Sales Price, 2021 to 2022



Source: Virginia REALTORS®

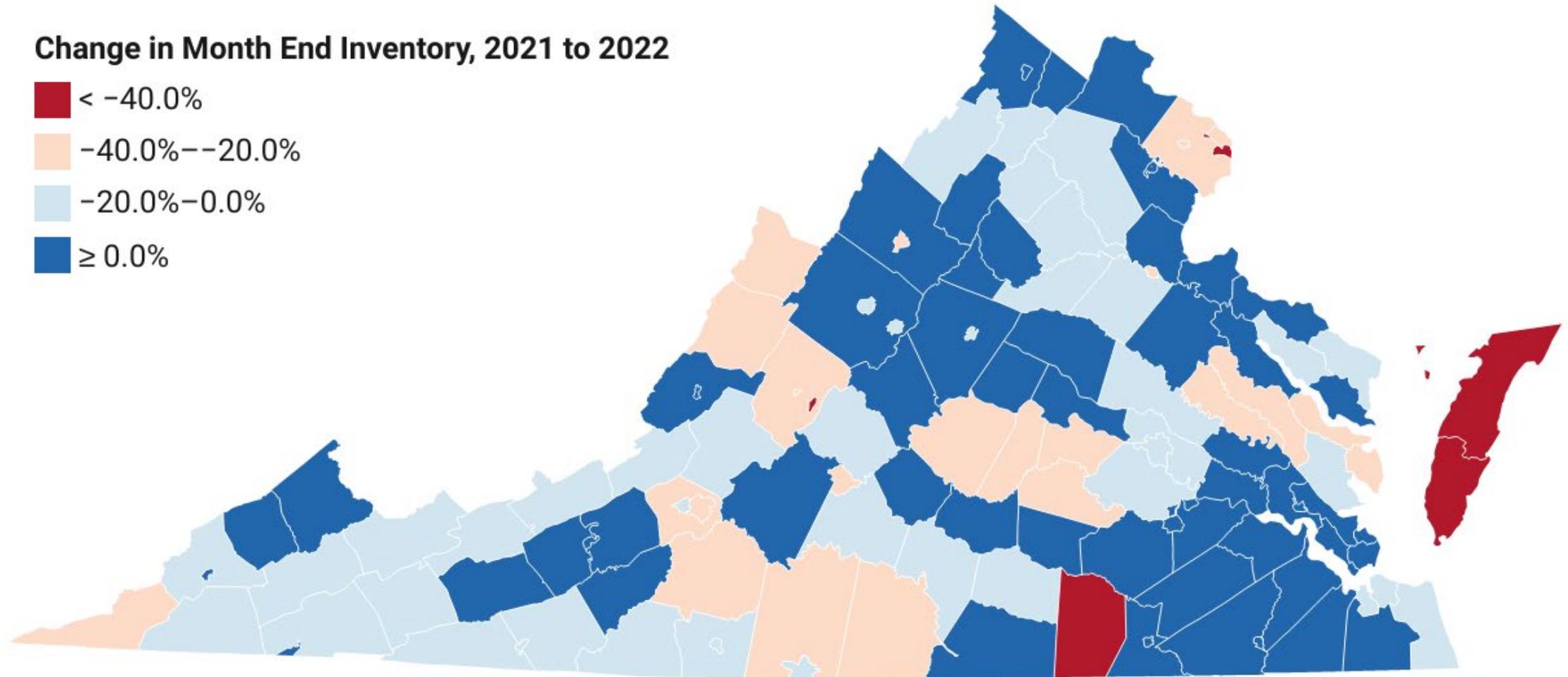
Inventory

Y-o-Y Change in Month-End Inventory

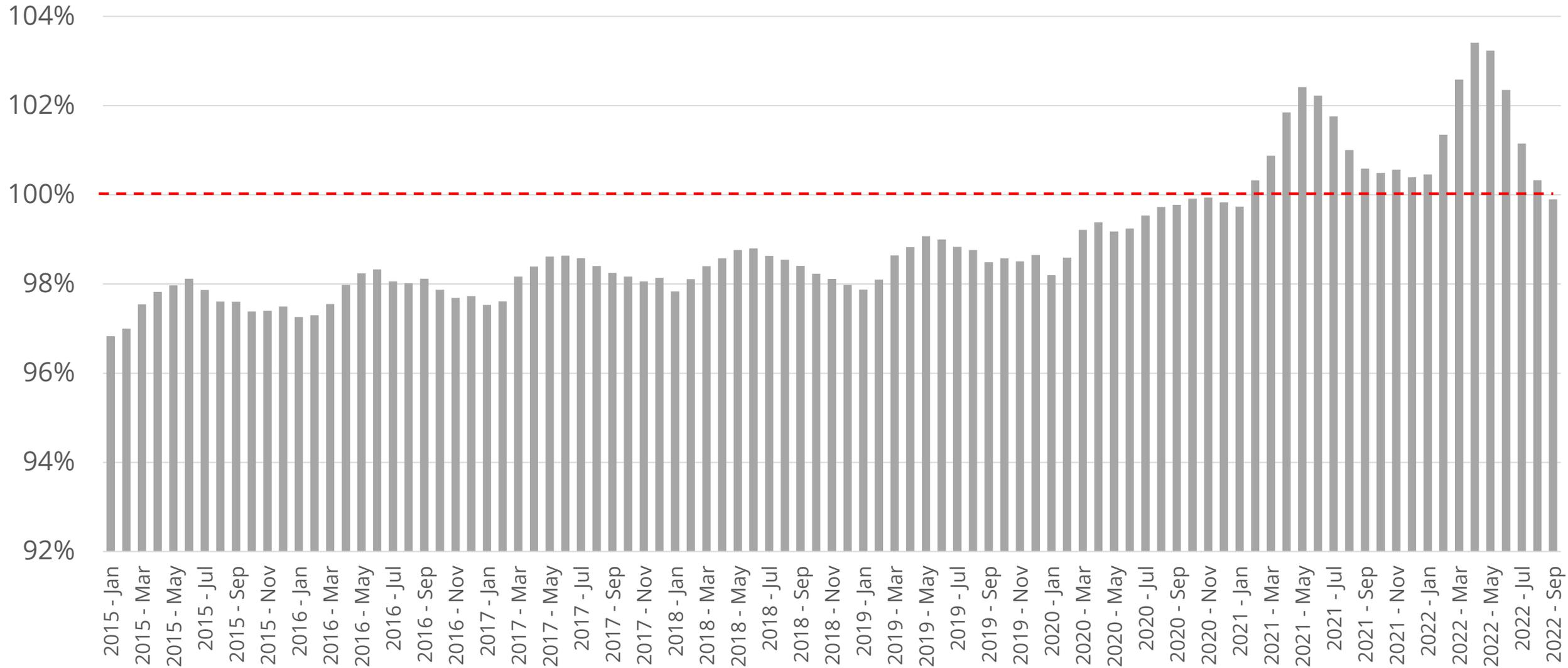


Inventory (End of Sep.)

Change in Month End Inventory, 2021 to 2022

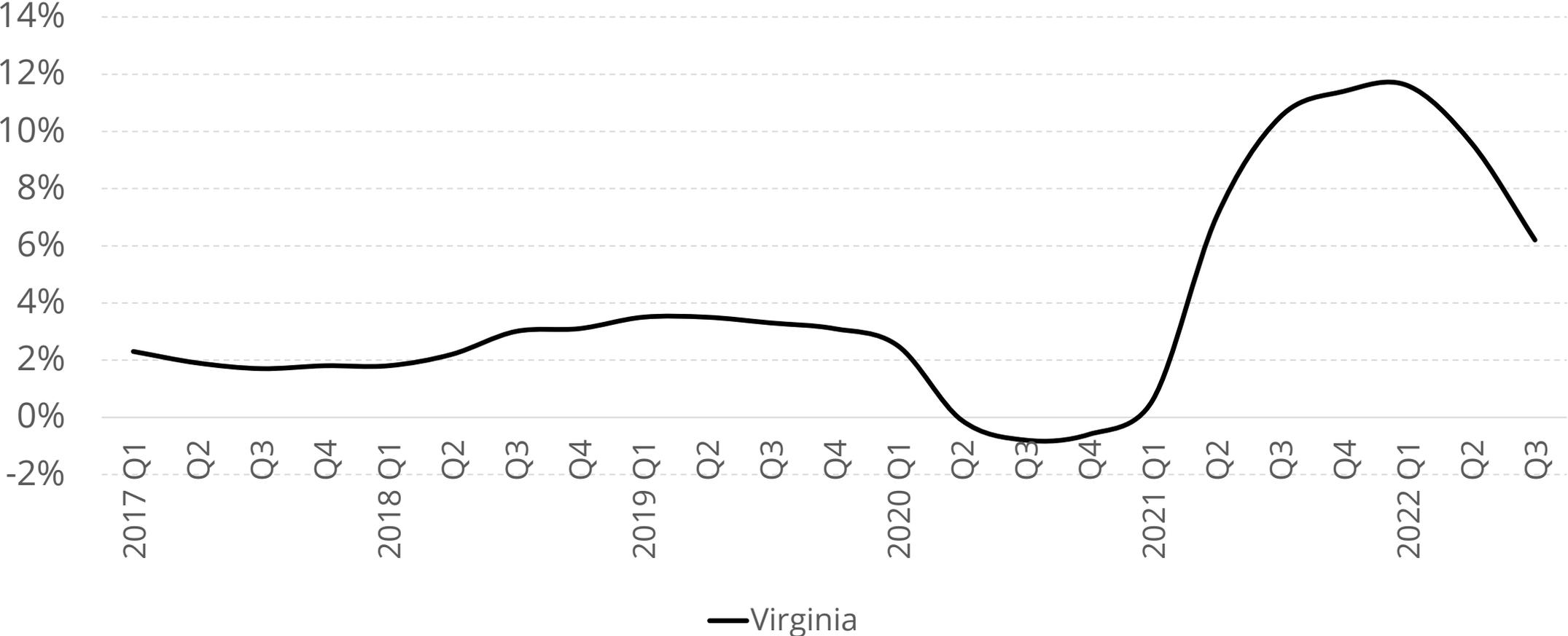


Average Sold to List Price Ratio



Rental Market Trends in Virginia

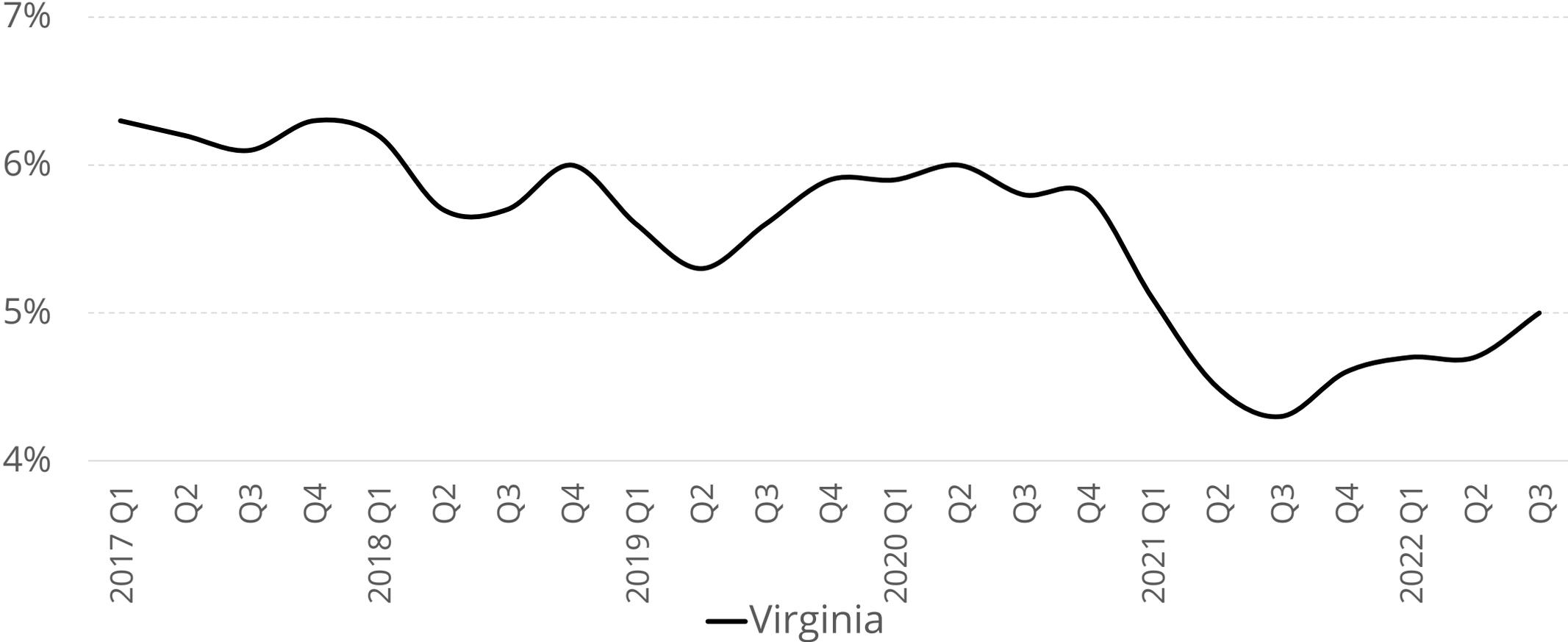
Y-o-Y % Change in Residential Rent



Source: CoStar

Rental Market Trends in Virginia

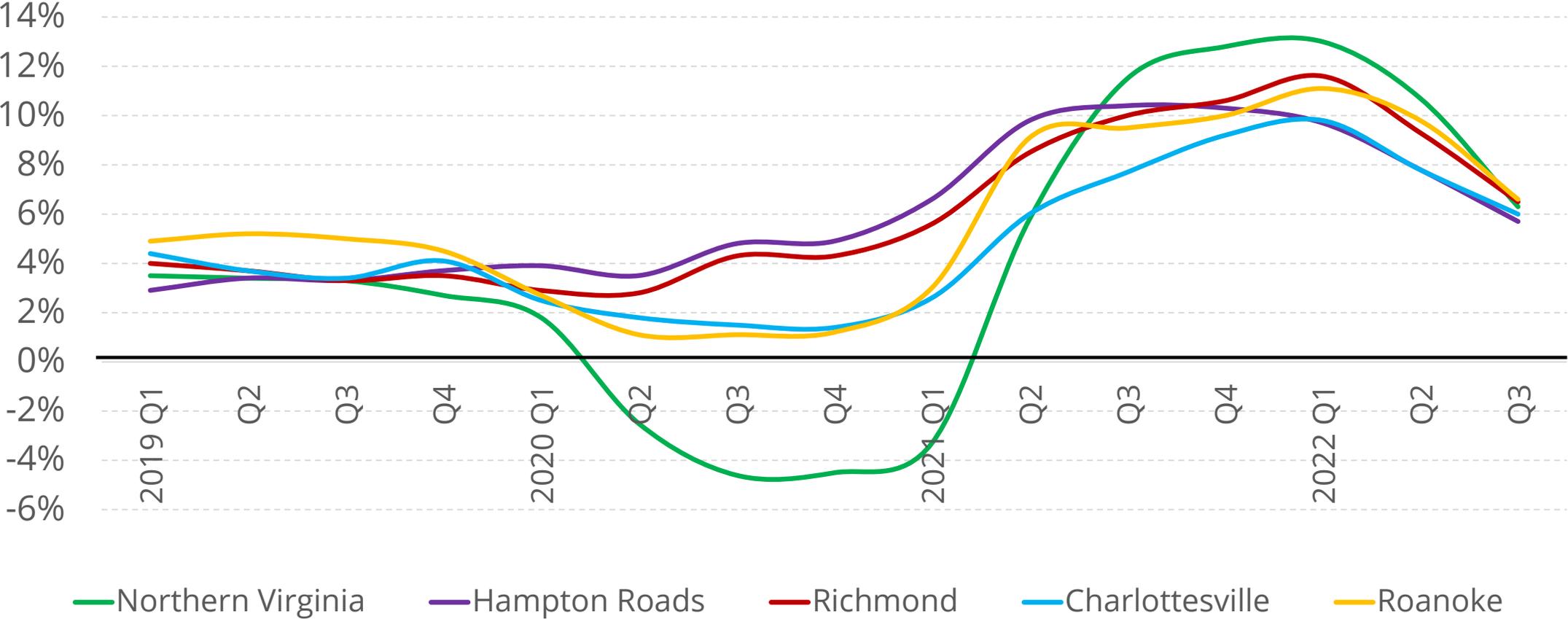
Vacancy Rate % Residential Rental Units



Source: CoStar

Rental Market Trends in Virginia

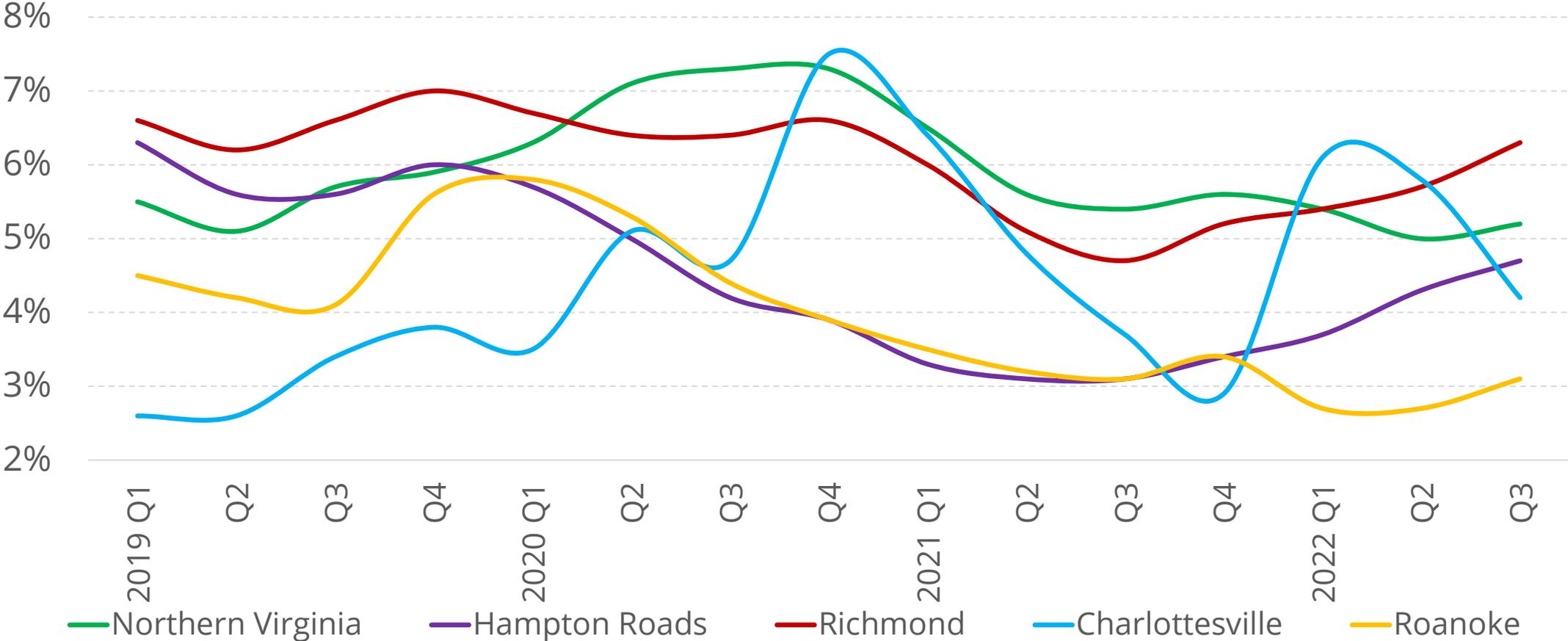
Y-o-Y % Change in Residential Rent



Source: CoStar

Rental Market Trends in Virginia

Vacancy Rate % Residential Rental Units



Source: CoStar

Rental Market Trends in Virginia

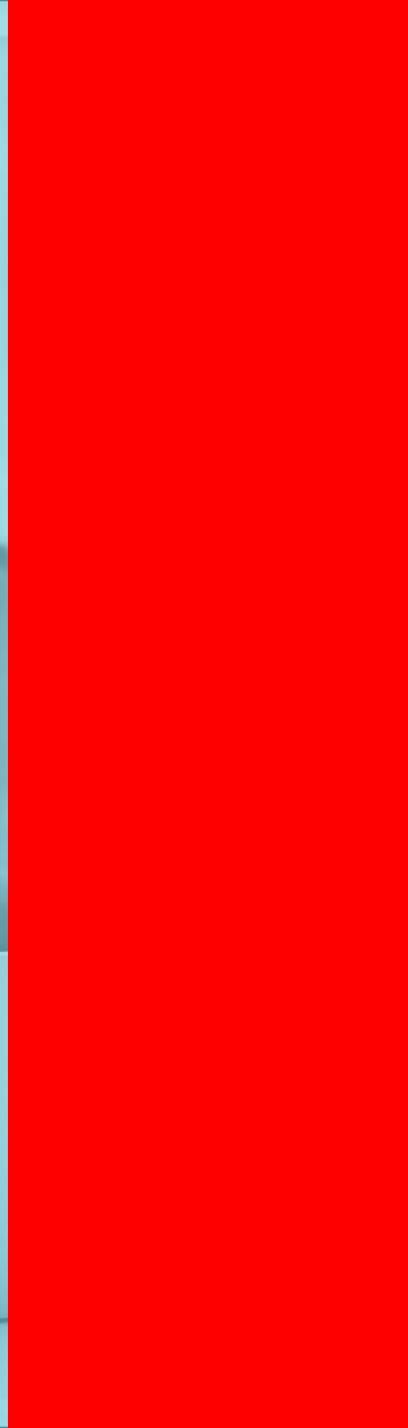
3-yr Change by MSA

| MSA | Q2 2019 Effective Rent per Unit | Q2 2022 Effective Rent per Unit | 3-yr Change (2022 vs 2019) |
|-------------------|---------------------------------------|---------------------------------------|-------------------------------|
| Richmond | \$1,105 | \$1,352 | 22.4% |
| Norfolk | \$1,068 | \$1,305 | 22.2% |
| Roanoke | \$843 | \$1,022 | 21.2% |
| Lynchburg | \$873 | \$1,021 | 17.0% |
| Charlottesville | \$1,337 | \$1,545 | 15.6% |
| Northern Virginia | \$1,802 | \$2,057 | 14.2% |
| Harrisonburg | \$925 | \$1,048 | 13.3% |
| Winchester | \$1,085 | \$1,211 | 11.6% |
| Blacksburg | \$1,062 | \$1,135 | 6.9% |

Source: CoStar

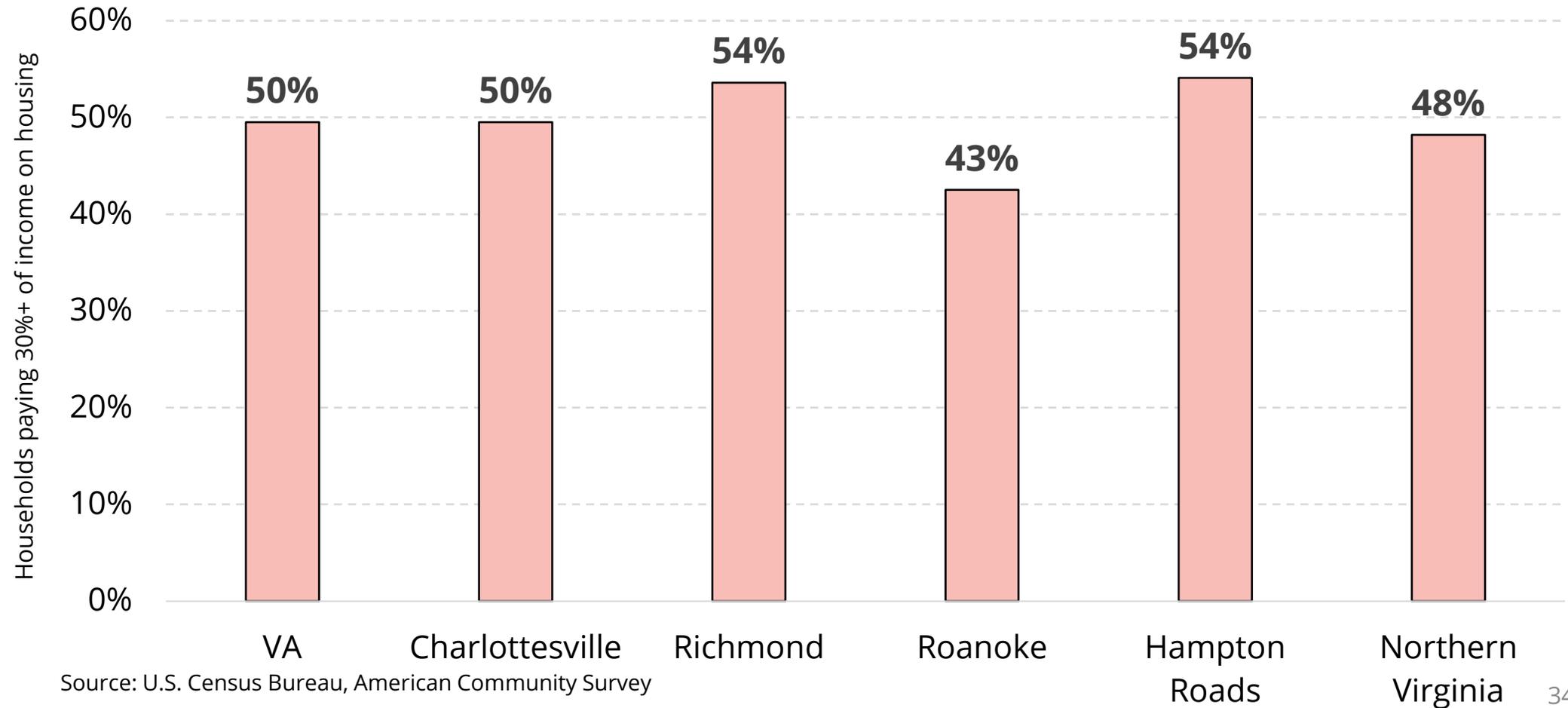


IMPACT ON AFFORDABILITY



Rental Affordability in Virginia

% of Renters that are Housing Cost Burdened (2021)



Source: U.S. Census Bureau, American Community Survey

Scenario: Homebuyers in Hampton Roads

Household Income
\$103K per year

Max Housing Payment*
\$2,500 per month

| | AUG 2021 | MAR 2022 | SEP 2022 |
|-------------------------|-----------------|-----------------|-----------------|
| INTEREST RATE | 2.85% | 3.85% | 6.70% |
| PURCHASING POWER | \$525K | \$480K | -\$148K |

Sources: U.S. Census Bureau (American Community Survey), Virginia REALTORS®, Freddie Mac, Redfin
 Note: Data rounded, Assumes 20% down payment, 1.25% property tax, 0.5% annual insurance premium



TRENDS TO WATCH

Moving Forward

Key Trends to Watch

- 1 Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years
- 2 More people are moving away from cities.
Outer suburbs, exurbs, rural areas in demand
- 3 There is a housing shortage in Virginia, this is driving up prices; markets with competitive prices well-positioned for growth

THE ECONOMIC IMPACT OF A TYPICAL HOME SALE

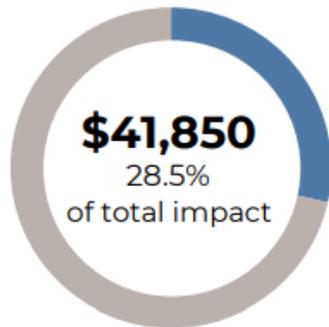
in Virginia

The real estate industry accounted for **\$103.8** billion or **17.5%** of the gross state product in 2021.

TOTAL ECONOMIC IMPACT

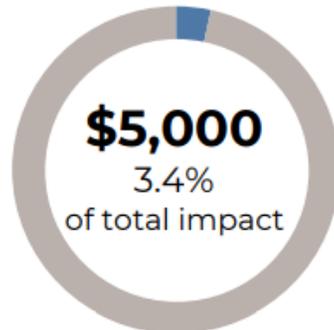
\$146,800

Income generated from
real estate industries



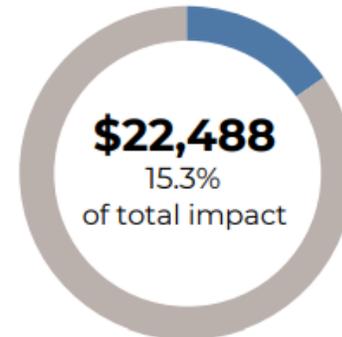
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Expenditures related
to home purchase



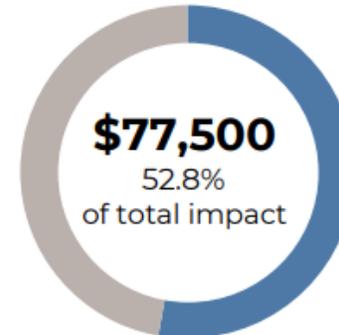
+

Multiplier of housing
related expenditures



+

New home
construction



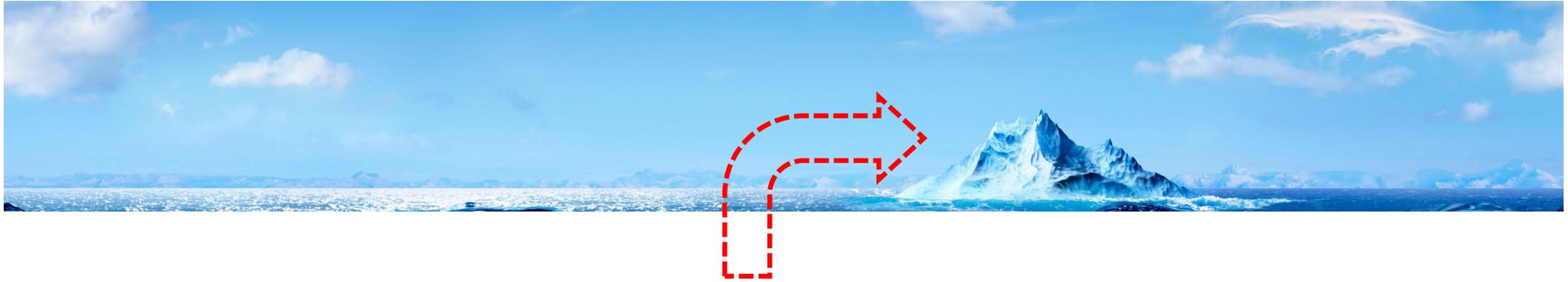
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Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years



1

Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years



Short-term/Mid-term issues tend to get most of the focus

1

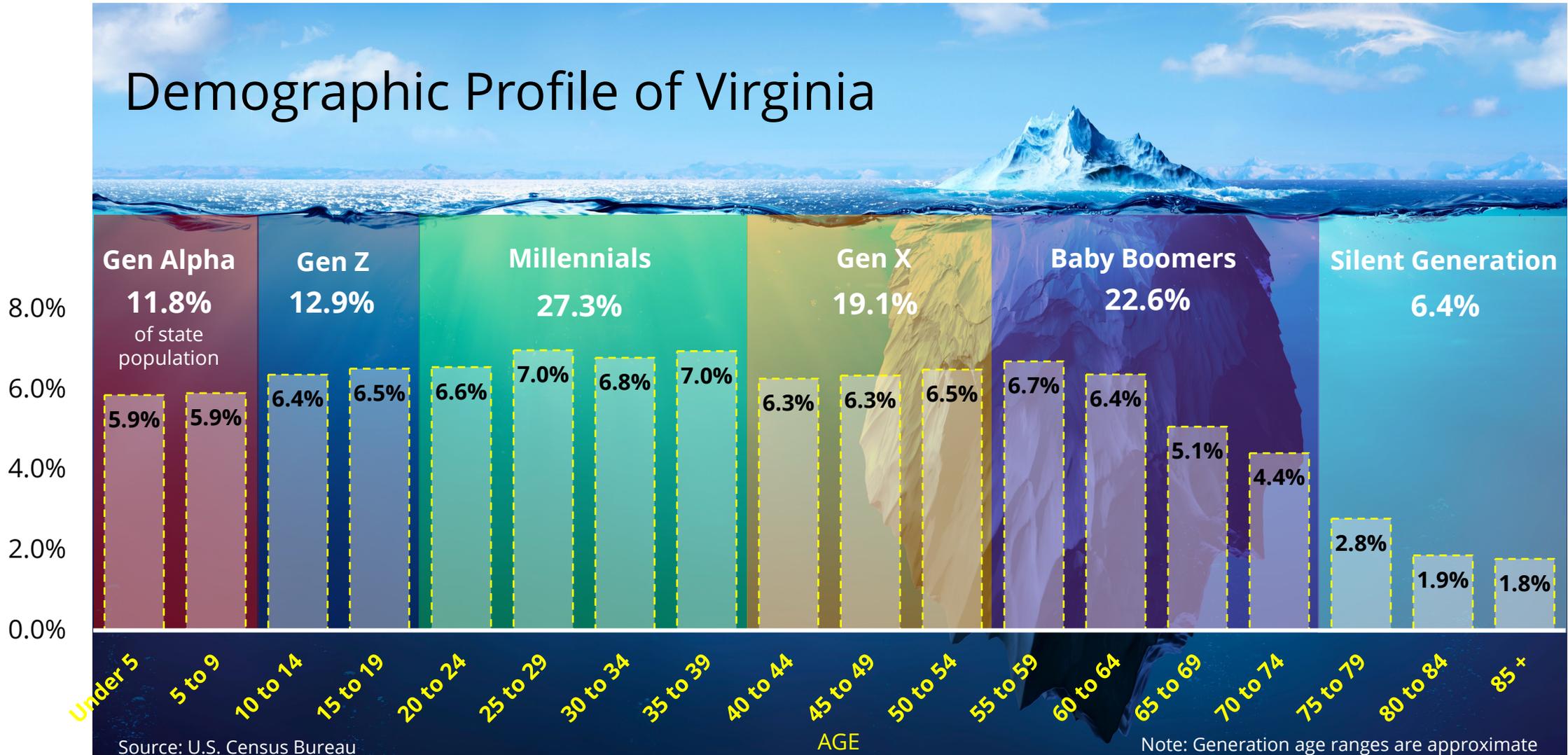
Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years



Demographics are persistent

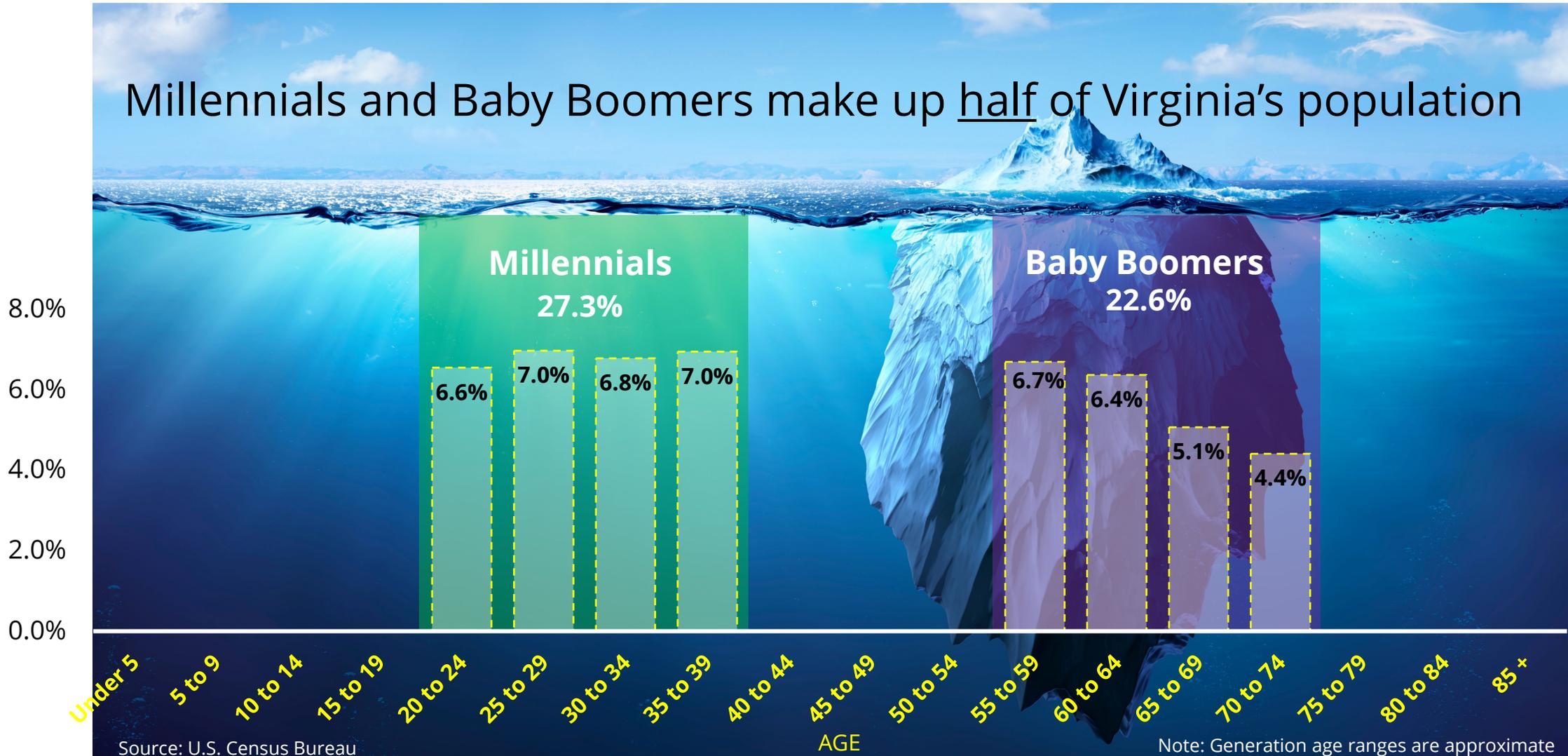
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Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years

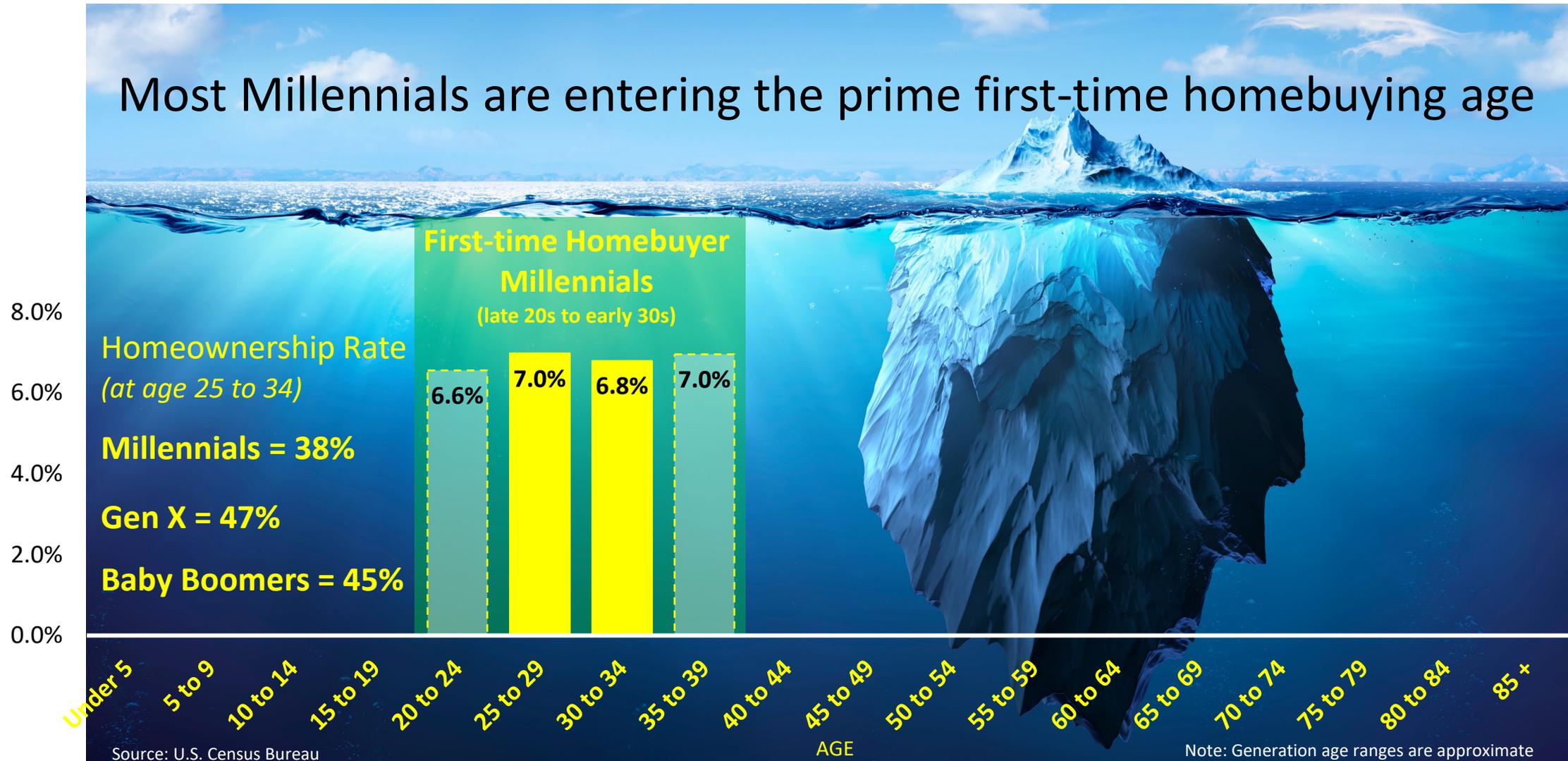


1

Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years

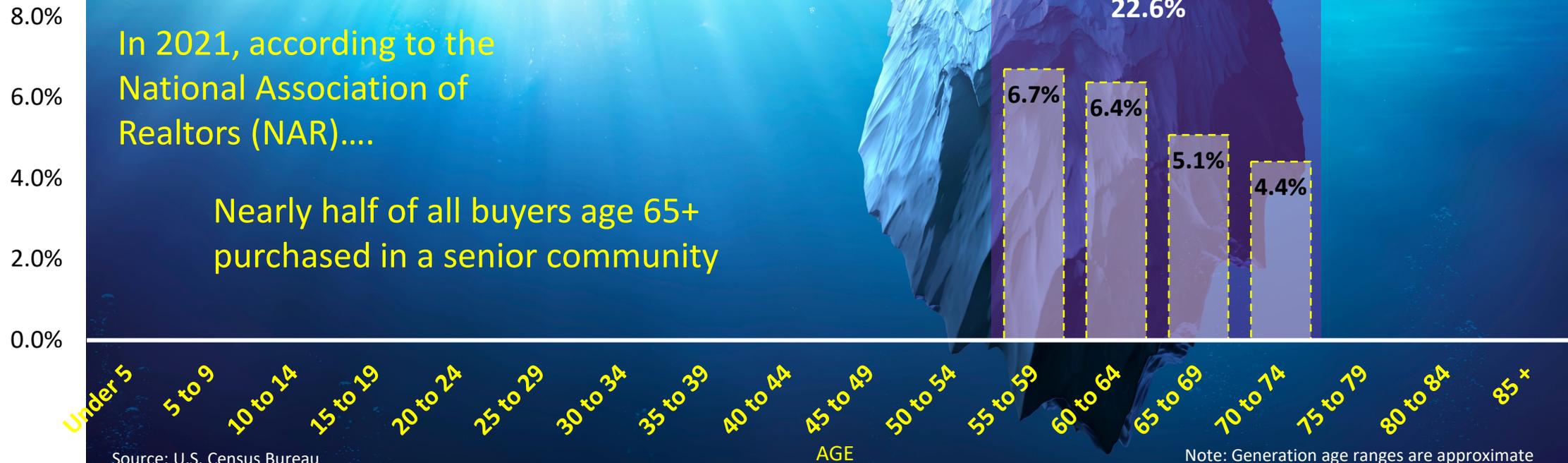


1 Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years



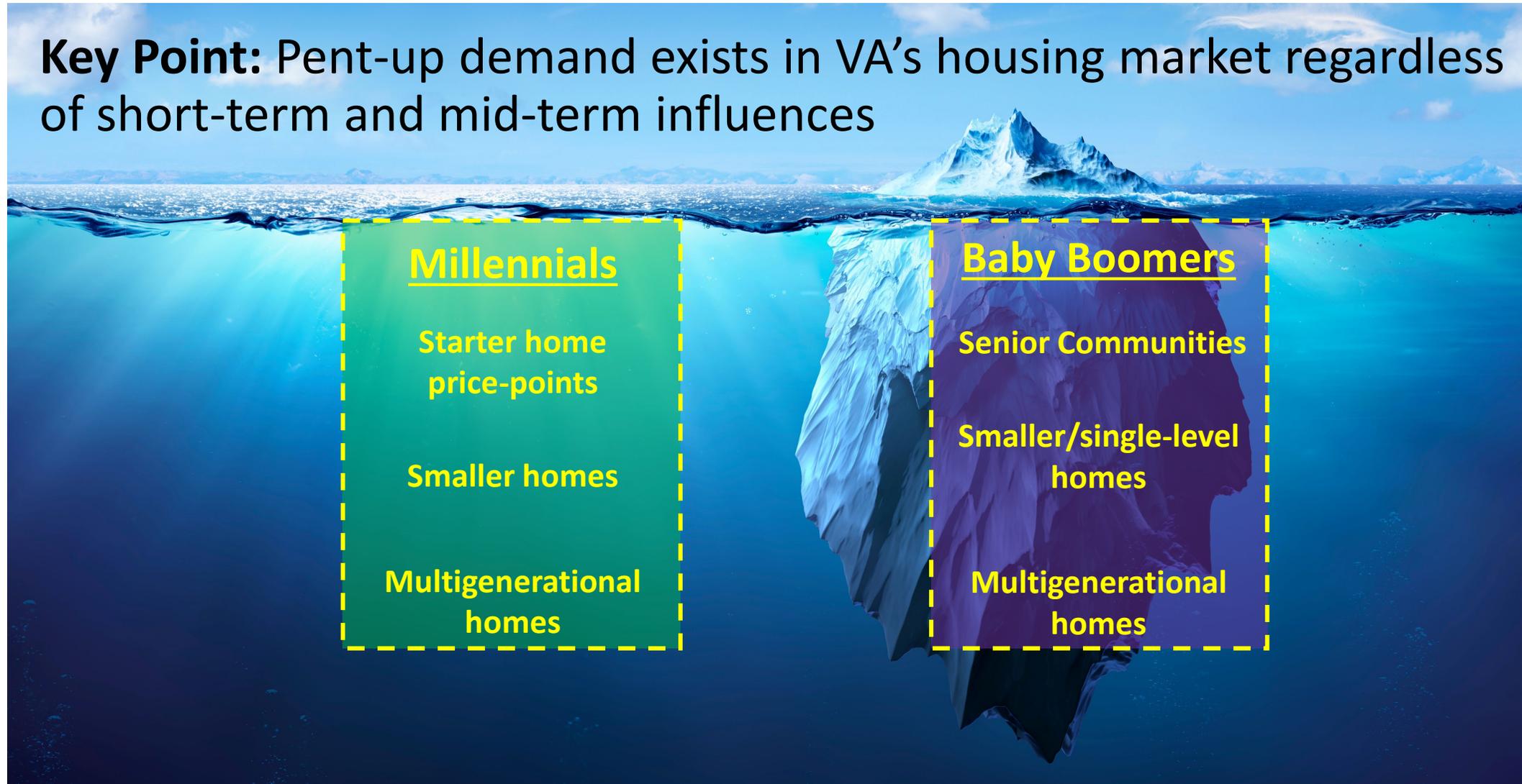
1 Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years

Many Boomers are aging in place, but changes are underway



1 Underlying demographic forces will shape demand in the housing market in the coming 5 to 10+ years

Key Point: Pent-up demand exists in VA's housing market regardless of short-term and mid-term influences

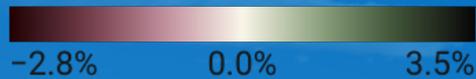


2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

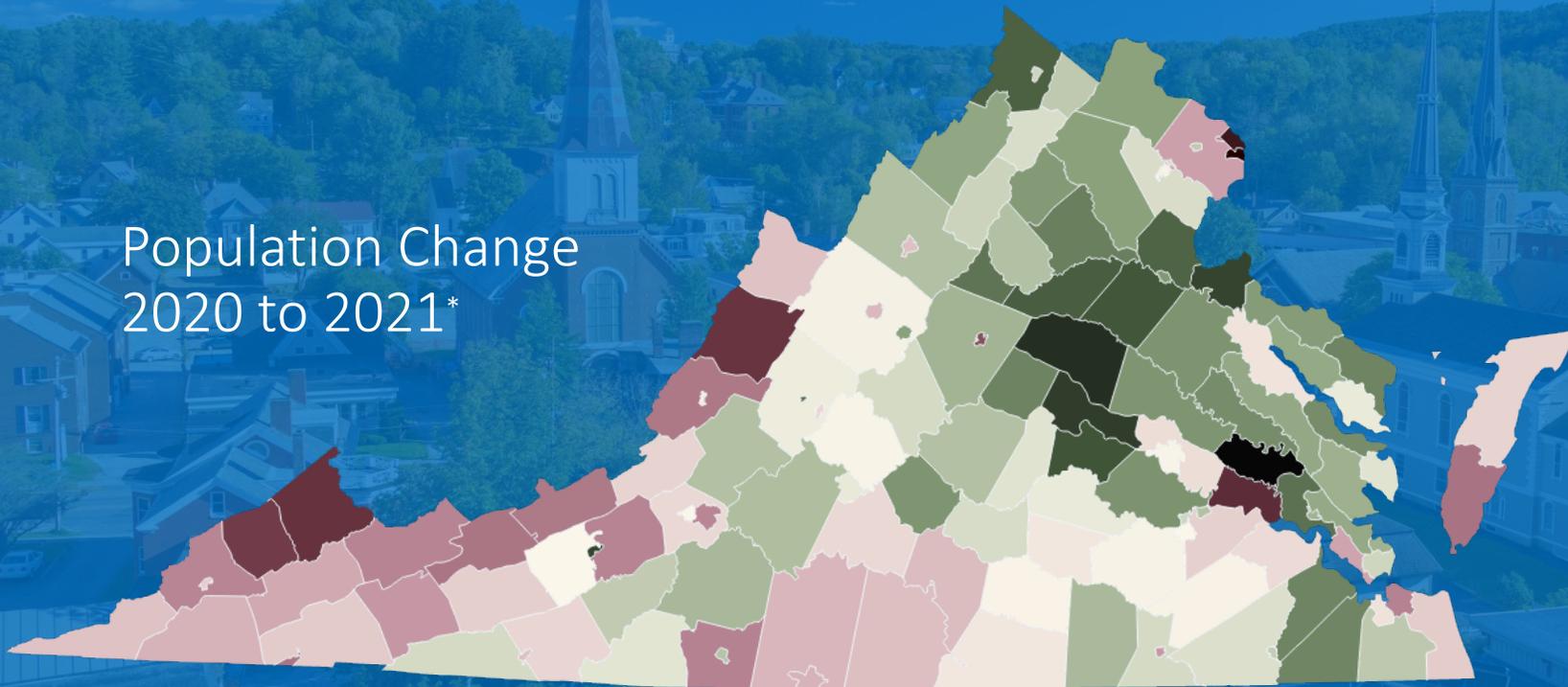


2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

Strongest population growth in VA has been in areas outside cities



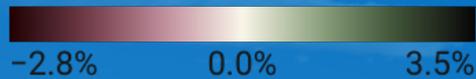
Population Change
2020 to 2021*



Source: U.S. Census Bureau * July 1, 2020 to July 1 2021

2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

Strongest population growth in VA has been in areas outside cities



Population Change
2020 to 2021*

Northern Shenandoah,
Piedmont Region

Outer suburbs + exurbs of
Northern Virginia

Northern Neck, Middle
Peninsula

Outer suburbs + exurbs of
Hampton Roads

Outer suburbs + exurbs of Richmond

Source: U.S. Census Bureau * July 1, 2020 to July 1 2021

2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

These trends are not new, but were accelerated by the pandemic

According to McKinsey's American Opportunity Survey (spring 2022).....



58% of Americans can work from home at least part of the time

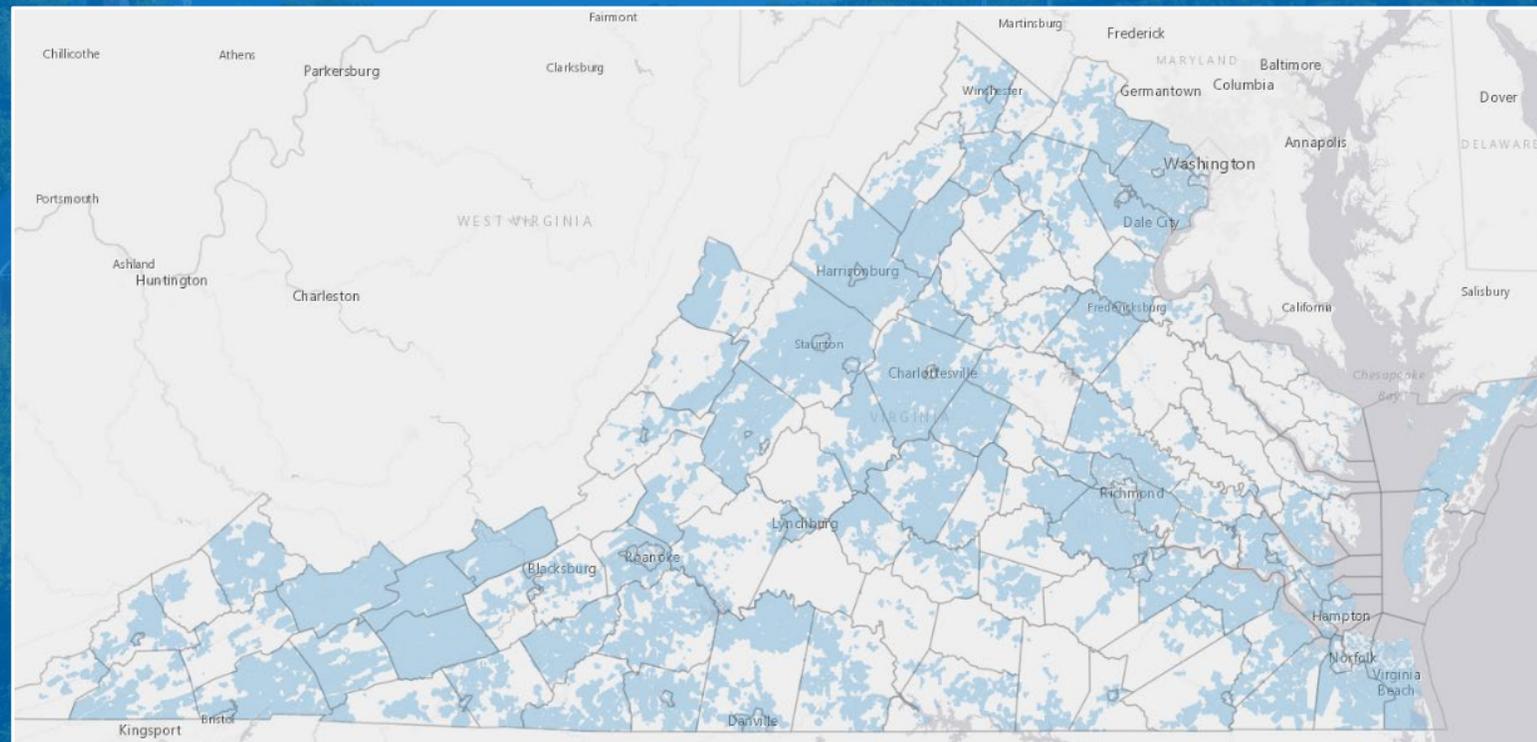
35% of Americans can work from home 5 days per week

87% of Americans who have the choice for flexible work options in their jobs choose to take it

2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

Broadband access is key to growth in these communities

Blue areas on map are census tracts where 80% or more of residents have access to high-speed broadband internet*



Source: Commonwealth Connection

*High-speed defined by Federal Govt. as a minimum of 25 mbps (download speed) and 3 mbps (upload speed)

2 More people are moving away from cities. Outer suburbs, exurbs, rural areas in demand

Key Point: Non-urban communities with high quality of life + housing availability + broadband access will be sought after in the years ahead

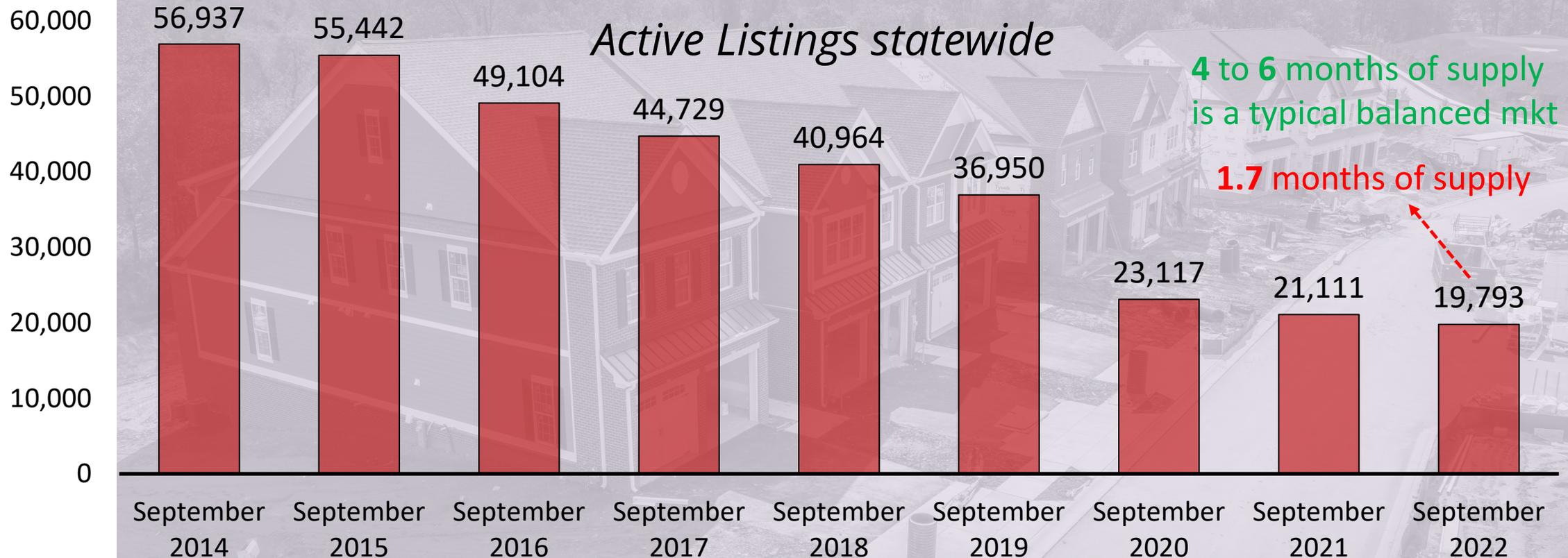


3 There is a housing shortage in Virginia, this is driving up prices; markets with competitive prices well-positioned



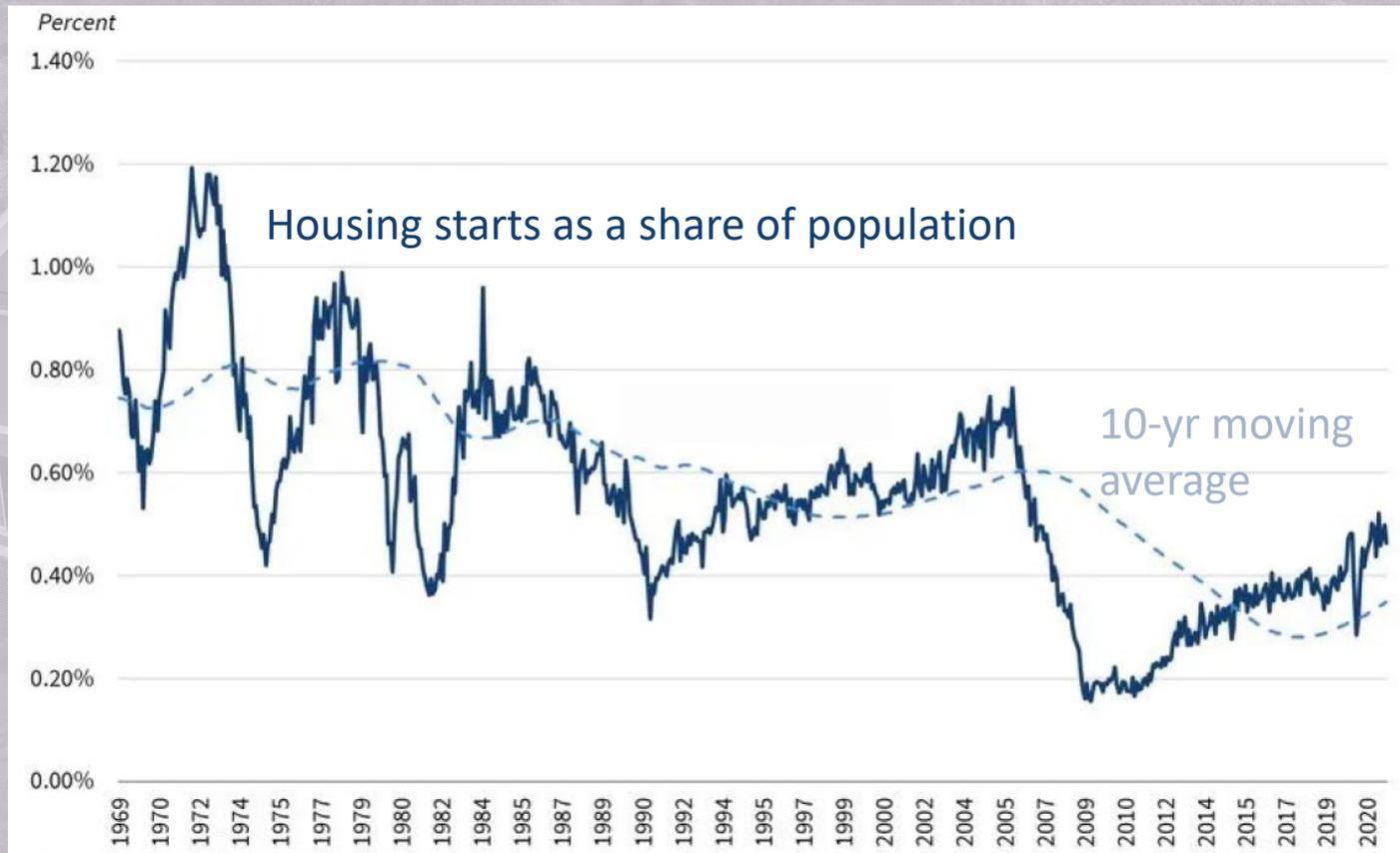
3 There is a housing shortage in Virginia, this is driving up prices; markets with competitive prices well-positioned

The inventory of homes for sale is chronically low in Virginia



3 There is a housing shortage in Virginia, this is driving up prices; markets with competitive prices well-positioned

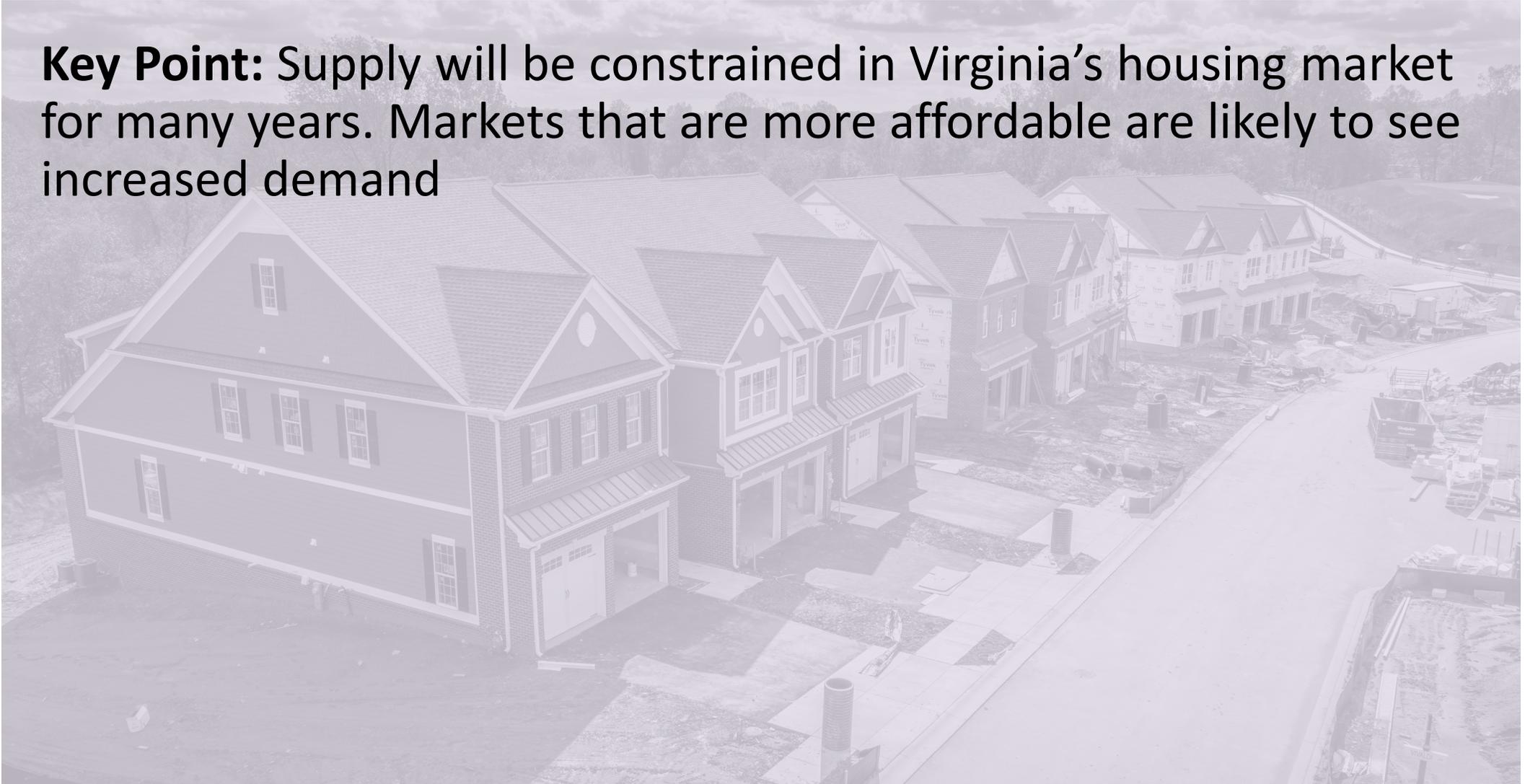
New construction has ramped up recently, but long-term underproduction has constrained the housing supply



Source: Federal Reserve Economic Data (FRED); CEA calculations

3 There is a housing shortage in Virginia, this is driving up prices; markets with competitive prices well-positioned

Key Point: Supply will be constrained in Virginia's housing market for many years. Markets that are more affordable are likely to see increased demand



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